Cloetta

# Interim report, Q3
# July – September 2014

Stockholm, 14 November 2014

> **Net sales** for the quarter increased by 9.1 per cent to SEK 1,303m (1,194), including a positive impact from foreign exchange rates of 3.9 per cent.

> **Operating profit** was SEK 178m (131).

> **Underlying EBIT** was SEK 178m (160).

> **Cash flow from operating activities** was SEK 75m (54).

> **Net debt/underlying EBITDA** was 4.5x (4.4). In the quarter, loans of SEK 34m were repaid.

> **On 5 November** Cloetta signed an agreement with Coop Sverige AB to provide them with a new pick-and-mix concept starting in 2015.

| | Third quarter | | | 9 months | | | |
|---|---|---|---|---|---|---|---|
| SEKm | Jul–Sep 2014 | Jul–Sep 2013 | Change, % | Jan–Sep 2014 | Jan–Sep 2013 | Change, % | Full year 2013 |
| Net sales | 1,303 | 1,194 | 9.1[2] | 3,734 | 3,452 | 8.2[3] | 4,893 |
| Operating profit (EBIT) | 178 | 131 | 35.9 | 315 | 243 | 29.6 | 418 |
| Operating profit margin (EBIT margin), % | 13.7 | 11.0 | 2.7-pts | 8.4 | 7.0 | 1.4-pts | 8.5 |
| Underlying EBIT[1] | 178 | 160 | 11.3 | 365 | 360 | 1.4 | 591 |
| Underlying EBIT margin, %[1] | 14.9 | 13.3 | 1.6-pts | 10.4 | 10.3 | 0.1-pts | 12.0 |
| Profit before tax | 126 | 101 | 24.8 | 147 | 83 | 77.1 | 210 |
| Profit for the period | 87 | 86 | 1.2 | 84 | 78 | 7.7 | 264 |
| Earnings per share, basic and diluted, SEK | 0.30 | 0.30 | – | 0.29 | 0.27 | 7.4 | 0.92 |
| Net debt/underlying EBITDA (Rolling 12 months), x | 4.5 | 4.4 | 2.3 | 4.5 | 4.4 | 2.3 | 4.2 |
| Cash flow from operating activities | 75 | 54 | 38.9 | 210 | 15 | 1,300.0 | 131 |

1 Based on constant exchange rates and current group structure, excluding acquisitions and items affecting comparability related to restructurings.
2 Organic growth at constant exchange rates and comparable units was –0.6 per cent for the quarter. See further under net sales on page 3.
3 Organic growth at constant exchange rates and comparable units was 0.7 per cent for the first three quarters. See further under net sales on page 3.

# Message from the CEO

## Significant improvement of operating profit

Cloetta's operating profit improved markedly during the quarter to SEK 178m (131). The underlying EBIT also increased and amounted to SEK 178m (160). It is very gratifying to see the convergence of the operating profit and the underlying EBIT, which is mainly due to the fact that our restructuring costs are coming to an end.

The operating profit margin strengthened during the quarter to 13.7 per cent (11.0). The underlying EBIT margin rose to 14.9 per cent (13.3). Profit after tax was SEK 87m (86). Cash flow from operating activities increased to SEK 75m (54).

### THE CONFECTIONERY MARKET

The confectionery market as a whole has been slightly positive, except in Finland where it remained negative due to the country's weak overall economic development.

### ACQUISITIONS DRIVING GROWTH

Cloetta's total sales for the quarter rose by 9.1 per cent, of which acquisitions accounted for 5.8 per cent and changes in exchange rates for 3.9 per cent. This means that organic sales were down by 0.6 per cent in the quarter. Despite a somewhat negative organic growth in the quarter, Cloetta has shown organic growth overall for the first 9 months. Sales can vary from quarter to quarter, mainly as a result of the timing of product launches and marketing activities.

Sales have increased or remained unchanged in the majority of markets. However, sales fell in both Sweden and Norway. In Sweden, a warm summer contributed to lower sales of primarily chocolate products, in particular in the impulse trade. The decreased sales in Norway are mainly attributable to the termination of a large pick-and-mix contract.

Sales of nuts under the Nutisal brand have shown positive development while, as in the previous quarter, contract manufacturing has declined. The long-term strategy is, as previously communicated, to focus on driving sales of the Nutisal branded products over contract manufacturing.

The Jelly Bean Factory, which was acquired in May, has shown very strong sales development, completely in line with our expectations.

### RESTRUCTURING PROCESS COMPLETED

Production of the chocolate product Tupla has now been fully insourced into the factory in Ljungsbro. With this, the final piece of the factory restructuring puzzle and relocation programme that was initiated more than two years ago has fallen into place. I am highly satisfied with the way we have been able to implement this massive restructuring process in which a full 40 per cent of the Group's total products have been relocated at some point during the project.

### AGREEMENT WITH COOP CREATES GROWTH

The agreement we have signed with Coop Sweden is a natural step in our growth strategy within Munchy Moments. Under the agreement, we will deliver a new pick-and-mix concept, including both candy and natural snacks, which will be rolled out in all of Coop Sweden's stores at the beginning of 2015. The agreement will drive growth and allow us to utilise our factory network even more efficiently, thereby contributing to profitable growth.

### CONTINUED FOCUS ON PROFITABLE GROWTH

After a relatively weak first quarter, profitability has steadily improved during the year in spite of a continued negative currency impact. I am very pleased that we have been able to complete the acquisitions of both Nutisal and The Jelly Bean Factory during this year and that we have signed an agreement with Coop Sweden for a new pick-and-mix concept. These steps will drive sales beyond organic growth in the coming quarters. Now that the factory restructuring process has been completed, we are fully committed to integrating and driving the operations we have acquired while at the same time ensuring continued profitable growth.


Bengt Baron,
President and CEO

# Financial overview

## THIRD QUARTER DEVELOPMENTS

### Net sales

Net sales for the third quarter rose by SEK 109m to SEK 1,303m (1,194) compared to the same period of last year. Adjusted for changes in exchange rates, sales were up by 5.2 per cent in the quarter, mainly due to acquisitions.

Sales have increased or remained unchanged in the majority of markets. However, sales fell in both Sweden and Norway. In Sweden, a warm summer contributed to lower sales of primarily chocolate products, in particular in the impulse trade. The decreased sales in Norway are mainly attributable to the termination of a major pick-and-mix contract.

| Changes in net sales, % | Jul–Sep 2014 | Jan–Sep 2014 |
|---|---|---|
| Changes in exchange rates | 3.9 | 3.3 |
| Structural changes | 5.8 | 4.2 |
| Organic growth | –0.6 | 0.7 |
| **Total** | **9.1** | **8.2** |

### Gross profit

Gross profit amounted to SEK 500m (453), which is equal to a gross margin of 38.4 per cent (37.9).

### Operating profit

Operating profit amounted to SEK 178m (131). The improvement is mainly due to lower restructuring costs, and was achieved despite the fact that operating profit for the quarter was impacted by negative foreign exchange differences. Underlying EBIT improved to SEK 178m (160).

### Items affecting comparability

Operating profit for the third quarter includes items affecting comparability related to the acquisition and integration of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and Aran Candy Ltd. as well as items related to factory restructurings and currency translation. The total impact of these items is nil.

### Net financial items

Net financial items for the quarter amounted to SEK –52m (-30). Interest expenses related to external borrowings were SEK –39m (–39). Other financial items of SEK –13m (9) consist of exchange differences on borrowings and cash in an amount of SEK 7m (34), interest on contingent earn-out liabilities of SEK –4m (0), amortisation of capitalised transaction costs of SEK –5m (–24), unrealised gains and losses on currency swaps of SEK –6m (0), and other financial items of SEK –5m (–1). SEK –8m (10) of the other financial items is non-cash in nature.

### Profit for the period after tax

Profit for the period after tax was SEK 87m (86), which is equal to basic and diluted earnings per share of SEK 0.30 (0.30). Income tax for the period was SEK –39m (–15). The increase versus last year is mainly due to non-deductible interest expenses and adjustments in filing positions from the previous year.

### Acquisitions and divestments

No acquisitions or divestments took place in the third quarter.

## DEVELOPMENT IN THE FIRST THREE QUARTERS

### Net sales

Net sales for the first three quarters rose by SEK 282m to SEK 3,734m (3,452) compared to the same period of last year. Adjusted for changes in exchange rates, sales were up by 4.9 per cent during the nine-month period.

Sales increased or remained unchanged in all markets except Italy. The lower sales in Italy are mainly attributable to weak market development. Contract manufacturing also declined.

### Gross profit

Gross profit amounted to SEK 1,392 m (1,310), which is equal to a gross margin of 37.3 per cent (37.9).

### Operating profit

Operating profit amounted to SEK 315m (243). The improvement is mainly due to lower restructuring costs, and was achieved despite the fact that operating profit was impacted by negative foreign exchange differences. Underlying EBIT was SEK 365m (360).

### Items affecting comparability

Operating profit for the first nine months includes items affecting comparability of SEK 61m (112) related to the acquisition and integration of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and Aran Candy Ltd. as well as costs from the factory restructurings and currency translation.

### Net financial items

Net financial items for the first three quarters of the year amounted to SEK –168m (–160). Interest expenses related to external borrowings were SEK –108m (–115). Other financial items of SEK –60m (–45) consist of exchange differences on borrowings and cash in an amount of SEK 3m (–7), interest on contingent earn-out liabilities of SEK –10m (0), amortisation of capitalised transaction costs of SEK –14m (–34), unrealised gains and losses on currency swaps of SEK –20m (20), and other financial items of SEK –19m (–24). SEK –41m (–21) of the other financial items is non-cash in nature.

### Profit for the period after tax

Profit after tax for the first three quarters of the year was SEK 84m (78), which is equal to basic and diluted earnings per share of SEK 0.29 (0.27). Income tax for the period was SEK –63m (–5). The increase versus last year is mainly due to non-deductible interest expenses and adjustments in filing positions from previous year.

### Acquisitions and divestments

In the first quarter, Cloetta Holland B.V. (which is wholly owned by Cloetta AB) acquired control of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) by acquiring 100 per cent of the share capital. In the second quarter, Cloetta Holland BV incorporated Cloetta Ireland Holding Ltd.. Cloetta Ireland Holding Ltd. acquired 100 per cent of the ordinary shares and 0 per cent of the A-shares, representing 75 per cent of the total shares of Aran Candy Ltd.. The ordinary shares entitle Cloetta to 100 per cent of the profit and dividend as well as 100 per cent of the voting rights. Aran Candy Ltd. owns The Jelly Bean Factory brand and is consolidated without non-controlling interests.

## CASH FLOW FROM OPERATING AND INVESTING ACTIVITIES

### Cash flow for the third quarter

Cash flow from operating activities was SEK 75m (54). Cash flow from operating activities before changes in working capital was SEK 152m (132). The improvement compared to the prior year is mainly the result of a higher operating profit. The cash flow from changes in working capital was SEK –77m (–78). Cash flow from operating and investing activities was SEK 24m (15).

#### *Working capital*

The cash flow from changes in working capital was SEK –77m (–78m). The negative movement in the quarter is mainly due to higher inventory levels resulting from the build up of seasonal products. In addition to this, increased sales in September led to a high level of receivables at the end of the quarter. Excluding the impact of the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and Aran Candy Ltd., the cash flow from changes in working capital was SEK –74m.

#### *Investments*

Cash flow from investing activities was SEK –51m (–39). The increase is mainly attributable to the second installment and paid stamp duties related to the acquisition of Aran Candy Ltd. in an amount of SEK 16m. The cash flow from investments in property, plant and equipment and intangibles amounted to SEK –38m (–42).

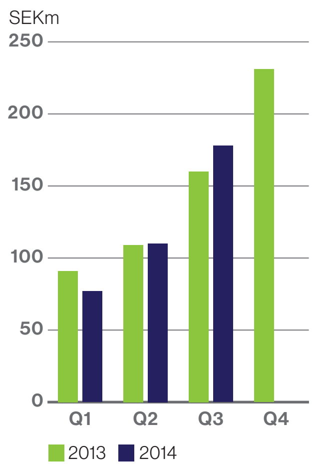
### Cash flow for the first three quarters of the year

Cash flow from operating activities was SEK 210m (15). Cash flow from operating activities before changes in working capital was SEK 225m (176). The improvement compared to the prior year is mainly the result of a higher operating profit. The cash flow from changes in working capital was SEK –15m (–161). Cash flow from operating and investing activities was SEK –99m (–126).

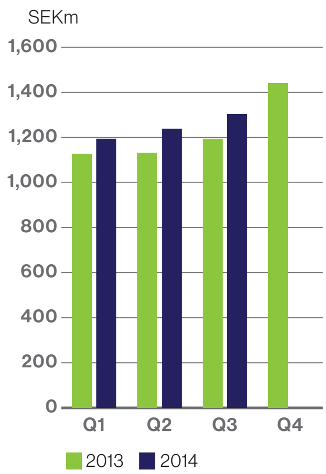
#### *Working capital*

The cash flow from changes in working capital was SEK –15m (–161m). The working capital impact of the build-up of seasonal products in the third quarter is offsetting the year to date positive impact in 2014 coming from the cash collection of the receivables from seasonal sales in the fourth quarter of 2013. The negative movement of SEK –161m in 2013 is mostly related to activities in the manufacturing strategy. Excluding the impact of the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and Aran Candy Ltd., the cash flow from changes in working capital was SEK 14m.

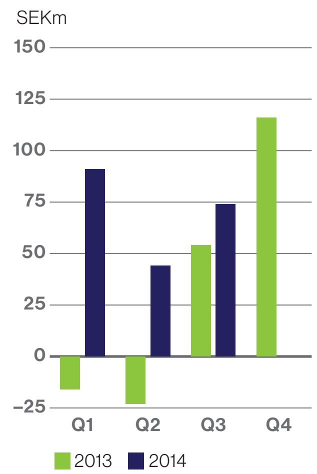
UNDERLYING EBIT




NET SALES




CASH FLOW FROM OPERATING ACTIVITIES



*Investments*

Cash flow from investing activities was SEK –309m (–141). The increase is mainly attributable to the acquisitions of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) for an amount of SEK 110m and Aran Candy Ltd. for a net amount of SEK 140m, which was partly offset by the proceeds of SEK 53m from the sale of the Gävle property. The cash flow from investments in property, plant and equipment and intangibles amounted to SEK –118m (–150).

## FINANCIAL POSITION

Consolidated equity at 30 September 2014 amounted to SEK 3,849m (3,468), which is equal to SEK 13.3 per share (12.0). Net debt at 30 September 2014 was SEK 3,461m (3,248). Non-current borrowings totalled SEK 3,030m (3,080) and consisted of SEK 2,067m (2,130) in gross loans from credit institutions, senior secured notes of SEK 1,000m (1,000) and SEK –37m (–50) in capitalised transaction costs. Total current borrowings amounted to SEK 443m (215) and consisted of SEK 172m (169) in gross loans from credit institutions, SEK –17m (–17) in capitalised transaction costs, SEK 287m (41) in a credit overdraft facility, and accrued interest on loans from credit institutions and senior secured notes in an amount of SEK 1m (22). The short-term gross loans from credit institutions in an amount of SEK 172m (169) consist of a short-term repayment obligation for the last quarter of 2014 and the first three quarters of 2015.

| SEKm | 30 Sep 2014 | 30 Sep 2013 | 31 Dec 2013 |
|---|---|---|---|
| Gross non-current borrowings | 2,067 | 2,130 | 2,144 |
| Gross current borrowings | 172 | 169 | 135 |
| Credit overdraft facility | 287 | 41 | 73 |
| Senior secured notes | 1,000 | 1,000 | 1,000 |
| Derivative financial instruments | 68 | 24 | 23 |
| Interest payable | 1 | 22 | 22 |
| **Gross debt** | **3,595** | **3,386** | **3,397** |
| Cash and cash equivalents | –134 | –138 | –167 |
| **Net debt** | **3,461** | **3,248** | **3,230** |

Cash and cash equivalents at 30 September 2014, excluding long-term unutilised overdraft facilities, amounted to SEK 134m (138). At 30 September 2014, Cloetta had unutilised overdraft facilities for a total of SEK 401m (649).

## OTHER DISCLOSURES

### Seasonal variations

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

### Employees

The average number of employees during the quarter was 2,495 (2,432). The impact of the closure of the Gävle plant has been offset by the new employees related to the acquisitions of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and Aran Candy Ltd..

### Coop Sweden agreement

On 5 November, Cloetta Sverige AB signed an agreement with Coop Sverige AB to provide them with a new pick-and-mix concept starting in 2015. This means that Cloetta will be responsible for the product range, racks, merchandising, etc. in all of Coop's stores in Sweden.

### Events after the balance sheet date

After the end of the reporting period, no significant events have taken place that could affect the company's operations.

# CASH FLOW FROM OPERATING AND INVESTING ACTIVITIES

| | Third quarter | | 9 months | | Rolling 12 | |
|---|---|---|---|---|---|---|
| SEKm | Jul–Sep 2014 | Jul–Sep 2013 | Jan–Sep 2014 | Jan–Sep 2013 | Oct 2013–Sep 2014 | Full year 2013 |
| Cash flow from operating activities before changes in working capital | 152 | 132 | 225 | 176 | 457 | 408 |
| Cash flow from changes in working capital | –77 | –78 | –15 | –161 | –131 | –277 |
| **Cash flow from operating activities** | **75** | **54** | **210** | **15** | **326** | **131** |
| Cash flows from investments in property, plant and equipment and intangible assets | –38 | –42 | –118 | –150 | –179 | –211 |
| Other cash flow from investing activities | –13 | 3 | –191 | 9 | –191 | 9 |
| **Cash flow from investing activities** | **–51** | **–39** | **–309** | **–141** | **–370** | **–202** |
| **Cash flow from operating and investing activities** | **24** | **15** | **–99** | **–126** | **–44** | **–71** |

# Selection of key product launches during Q3


**AKO**
Mint, Cream and Chok
Launched in Sweden.


**Malaco**
Gott & blandat Family bag x 3
Launched in Sweden.


**Cloetta**
Sprinkle Mint & crispy rain
Sprinkle Salted icecream waffel
Launched in Finland.


**Venco**
Droprondo's and Dropuitdeelmix
Launched in the Netherlands.


**RedBand**
Pret Mix and Magische Feestmix
Launched in the Netherlands.


**Fünf Kräuter**
Relaunched in Sweden.


**Jenkki**
Professional Clean Feel
Launched in Finland.


**Mynthon**
Zip Mint
Launched in Finland.


**Läkerol**
HALS Ginger Lemon
Launched in Sweden.


**Läkerol**
Xtreme Apple Mint
Launched in Norway.


**Läkerol**
Licorice Mint
Launched in Sweden and Denmark.

The Board of Directors hereby gives its assurance that the interim report provides a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Stockholm, 14 November 2014

Cloetta AB (publ)

*Board of Directors*

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# REVIEW REPORT

Cloetta AB (publ)
Corp. id. 556308-8144

## INTRODUCTION

We have reviewed the summary interim financial information (interim report) of Cloetta AB (publ) as of 30 September 2014 and the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm, 14 November 2014

KPMG AB
Helene Willberg
*Authorised Public Accountant*

# Financial statements in summary

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Third quarter | | 9 months | | Rolling 12 | |
|---|---|---|---|---|---|---|
| **SEKm** | **Jul–Sep 2014** | **Jul–Sep 2013** | **Jan–Sep 2014** | **Jan–Sep 2013** | **Oct 2013–Sep 2014** | **Full year 2013** |
| Net sales | 1,303 | 1,194 | 3,734 | 3,452 | 5,175 | 4,893 |
| Cost of goods sold | –803 | –741 | –2,342 | –2,142 | –3,281 | –3,081 |
| **Gross profit** | **500** | **453** | **1,392** | **1,310** | **1,894** | **1,812** |
| | | | | | | |
| Other income | 3 | 2 | 4 | 12 | 4 | 12 |
| | | | | | | |
| Selling expenses | –195 | –197 | –655 | –631 | –874 | –850 |
| General and administrative expenses | –130 | –127 | –426 | –448 | –534 | –556 |
| **Operating profit** | **178** | **131** | **315** | **243** | **490** | **418** |
| | | | | | | |
| Exchange differences on borrowings and cash and cash equivalents in foreign currencies | 7 | 34 | 3 | –7 | –2 | –12 |
| Other financial income | 1 | 2 | 4 | 22 | 6 | 24 |
| Other financial expenses | –60 | –66 | –175 | –175 | –220 | –220 |
| **Net financial items** | **–52** | **–30** | **–168** | **–160** | **–216** | **–208** |
| | | | | | | |
| **Profit/loss before tax** | **126** | **101** | **147** | **83** | **274** | **210** |
| Income tax | –39 | –15 | -63 | –5 | -4 | 54 |
| **Profit/loss for the period** | **87** | **86** | **84** | **78** | **270** | **264** |
| | | | | | | |
| *Profit/loss for the period attributable to:* | | | | | | |
| **Owners of the Parent Company** | **87** | **86** | **84** | **78** | **270** | **264** |
| | | | | | | |
| Earnings per share, SEK | | | | | | |
| Basic | 0.30 | 0.30 | 0.29 | 0.27 | 0.94 | 0.92 |
| Diluted[1] | 0.30 | 0.30 | 0.29 | 0.27 | 0.94 | 0.92 |
| | | | | | | |
| Number of shares at end of period | 288,619,299 | 288,619,299 | 288,619,299 | 288,619,299 | 288,619,299 | 288,619,299 |
| Average number of shares (basic)[1] | 286,481,689 | 288,619,299 | 287,158,612 | 288,619,299 | 287,265,251 | 288,010,947 |
| Average number of shares (diluted)[1] | 286,593,066 | 287,597,798 | 287,247,718 | 288,105,870 | 287,336,237 | 288,026,408 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Third quarter | | 9 months | | Rolling 12 | |
|---|---|---|---|---|---|---|
| SEKm | Jul–Sep 2014 | Jul–Sep 2013 | Jan–Sep 2014 | Jan–Sep 2013 | Oct 2013–Sep 2014 | Full year 2013 |
| **Profit/loss for the period** | **87** | **86** | **84** | **78** | **270** | **264** |
| *Other comprehensive income* | | | | | | |
| Remeasurement of defined benefit pension plans | –69 | 16 | –106 | 83 | –103 | 86 |
| Income tax on other comprehensive income that will not be reclassified subsequently to profit and loss for the period | 17 | –4 | 24 | –19 | 24 | –19 |
| **Items that cannot be reclassified to profit or loss for the period** | **–52** | **12** | **–82** | **64** | **–79** | **67** |
| Hedge of a net investment in a foreign operation | 2 | –14 | –26 | –14 | –66 | –54 |
| Currency translation differences | –10 | –65 | 141 | 28 | 261 | 148 |
| Income tax on other comprehensive income that will be reclassified subsequently to profit and loss for the period | –1 | 3 | 5 | 3 | 14 | 12 |
| **Items that have been reclassified or can be reclassified to profit or loss for the period** | **–9** | **–76** | **120** | **17** | **209** | **106** |
| **Total other comprehensive income** | **–61** | **–64** | **38** | **81** | **130** | **173** |
| **Total comprehensive income, net of tax** | **26** | **22** | **122** | **159** | **400** | **437** |
| ***Total comprehensive income for the period attributable to:*** | | | | | | |
| Owners of the Parent Company | 26 | 22 | 122 | 159 | 400 | 437 |

## NET FINANCIAL ITEMS

| | Third quarter | | 9 months | | Rolling 12 | |
|---|---|---|---|---|---|---|
| SEKm | Jul–Sep 2014 | Jul–Sep 2013 | Jan–Sep 2014 | Jan–Sep 2013 | Oct 2013–Sep 2014 | Full year 2013 |
| **Exchange differences on borrowings and cash** | **7** | **34** | **3** | **–7** | **–2** | **–12** |
| Other financial income, third parties | 1 | 2 | 4 | 2 | 4 | 2 |
| Unrealised gains on single currency interest rate swaps | – | – | – | 20 | 2 | 22 |
| **Other financial income** | **1** | **2** | **4** | **22** | **6** | **24** |
| Interest expenses third-party borrowings and realised losses on single currency interest rate swaps | –39 | –39 | –108 | –115 | –146 | –153 |
| Interest expenses, contingent earn-out liabilities | –4 | – | –10 | – | –10 | – |
| Amortisation of capitalised transaction costs | –5 | –24 | –14 | –34 | –18 | –38 |
| Unrealised losses on single currency interest rate swaps | –6 | 0 | –20 | – | –20 | – |
| Other financial expenses | –6 | –3 | –23 | –26 | –26 | –29 |
| **Other financial expenses** | **–60** | **–66** | **–175** | **–175** | **–220** | **–220** |
| **Net financial items** | **–52** | **–30** | **–168** | **–160** | **–216** | **–208** |

# CONSOLIDATED BALANCE SHEET

| SEKm | 30 Sep 2014 | 30 Sep 2013 | 31 Dec 2013 |
|---|---|---|---|
| Intangible assets | 5,785 | 5,149 | 5,252 |
| Property, plant and equipment | 1,636 | 1,637 | 1,660 |
| Deferred tax asset | 67 | 54 | 73 |
| Derivative financial instruments | – | 0 | – |
| Other financial assets | 104 | 89 | 91 |
| **Total non-current assets** | **7,592** | **6,929** | **7,076** |
| | | | |
| Inventories | 980 | 872 | 798 |
| Other current assets | 949 | 875 | 933 |
| Cash and cash equivalents | 134 | 138 | 167 |
| **Total current assets** | **2,063** | **1,885** | **1,898** |
| Assets held for sale | 16 | 18 | 15 |
| **TOTAL ASSETS** | **9,671** | **8,832** | **8,989** |
| | | | |
| **Equity** | **3,849** | **3,468** | **3,747** |
| | | | |
| Borrowings | 3,030 | 3,080 | 3,096 |
| Deferred tax liability | 430 | 421 | 397 |
| Derivative financial instruments | 55 | 19 | 21 |
| Other non-current liabilities | 170 | 11 | 2 |
| Provisions for pensions and other long-term employee benefits | 470 | 361 | 360 |
| Provisions | 17 | 8 | 7 |
| **Total non-current liabilities** | **4,172** | **3,900** | **3,883** |
| | | | |
| Borrowings | 443 | 215 | 212 |
| Derivative financial instruments | 13 | 5 | 2 |
| Other current liabilities | 1,182 | 1,216 | 1,066 |
| Provisions | 12 | 28 | 79 |
| **Total current liabilities** | **1,650** | **1,464** | **1,359** |
| **TOTAL EQUITY AND LIABILITIES** | **9,671** | **8,832** | **8,989** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| SEKm | Jan–Sep 2014 | Jan–Sep 2013 | Full year 2013 |
|---|---|---|---|
| **Equity at beginning of period** | **3,747** | **3,326** | **3,326** |
| | | | |
| Profit/loss for the period | 84 | 78 | 264 |
| Other comprehensive income | 38 | 81 | 173 |
| **Total comprehensive income** | **122** | **159** | **437** |
| | | | |
| **Transactions with owners** | | | |
| Forward contract to repurchase own shares | –27 | –19 | –19 |
| Share-based payments | 7 | 2 | 3 |
| **Total transactions with owners** | **–20** | **–17** | **–16** |
| | | | |
| **Equity at end of period** | **3,849** | **3,468** | **3,747** |

## CONSOLIDATED CASH FLOW STATEMENT

| | Third quarter | | 9 months | | Rolling 12 | |
|---|---|---|---|---|---|---|
| SEKm | Jul–Sep 2014 | Jul–Sep 2013 | Jan–Sep 2014 | Jan–Sep 2013 | Oct 2013–Sep 2014 | Full year 2013 |
| Cash flow from operating activities before changes in working capital | 152 | 132 | 225 | 176 | 457 | 408 |
| Cash flow from changes in working capital | –77 | –78 | –15 | –161 | –131 | –277 |
| **Cash flow from operating activities** | **75** | **54** | **210** | **15** | **326** | **131** |
| | | | | | | |
| Cash flows from investments in property, plant and equipment and intangible assets | –38 | –42 | –118 | –150 | –179 | –211 |
| Other cash flow from investing activities | –13 | 3 | –191 | 9 | –191 | 9 |
| **Cash flow from investing activities** | **–51** | **–39** | **–309** | **–141** | **–370** | **–202** |
| **Cash flow from operating and investing activities** | **24** | **15** | **–99** | **–126** | **–44** | **–71** |
| **Cash flow from financing activities** | **–51** | **11** | **90** | **–26** | **51** | **–65** |
| **Cash flow for the period** | **–27** | **26** | **–9** | **–152** | **7** | **–136** |
| | | | | | | |
| Cash and cash equivalents at beginning of period | 157 | 139 | 167 | 306 | 138 | 306 |
| Cash flow for the period | –27 | 26 | –9 | –152 | 7 | –136 |
| Foreign exchange difference | 4 | –27 | –24 | –16 | –11 | –3 |
| **Cash and cash equivalents at end of period** | **134** | **138** | **134** | **138** | **134** | **167** |

## CONSOLIDATED KEY FIGURES

| SEKm | Third quarter Jul–Sep 2014 | Third quarter Jul–Sep 2013 | 9 months Jan–Sep 2014 | 9 months Jan–Sep 2013 | Rolling 12 Oct 2013–Sep 2014 | Full year 2013 |
|---|---|---|---|---|---|---|
| **Profit** | | | | | | |
| Net sales | 1,303 | 1,194 | 3,734 | 3,452 | 5,175 | 4,893 |
| Net sales, growth, % | 9.1 | 3.0 | 8.2 | –0.1 | 6.6 | 0.7 |
| Organic net sales, growth, % | –0.6 | 1.4 | 0.7 | –2.0 | 2.8 | –1.0 |
| Gross margin, % | 38.4 | 37.9 | 37.3 | 37.9 | 36.6 | 37.0 |
| Underlying EBITDA | 221 | 205 | 499 | 492 | 773 | 766 |
| Underlying EBITDA margin, % | 18.5 | 17.1 | 14.2 | 14.1 | 15.6 | 15.6 |
| Depreciation | –48 | –45 | –143 | –131 | –187 | –175 |
| Amortisation | –1 | 0 | –2 | –1 | –3 | –2 |
| Underlying EBIT | 178 | 160 | 365 | 360 | 596 | 591 |
| Underlying EBIT margin, % | 14.9 | 13.3 | 10.4 | 10.3 | 12.0 | 12.0 |
| Operating profit (EBIT) | 178 | 131 | 315 | 243 | 490 | 418 |
| Operating profit margin (EBIT margin), % | 13.7 | 11.0 | 8.4 | 7.0 | 9.5 | 8.5 |
| Profit margin, % | 9.7 | 8.5 | 3.9 | 2.4 | 5.3 | 4.3 |
| **Financial position** | | | | | | |
| Working capital | 824 | 634 | 824 | 634 | 824 | 763 |
| Capital expenditure | –44 | –42 | –124 | –150 | –185 | –211 |
| Net debt | 3,461 | 3,248 | 3,461 | 3,248 | 3,461 | 3,230 |
| Capital employed | 7,860 | 7,149 | 7,860 | 7,149 | 7,860 | 7,438 |
| Return on capital employed, % (Rolling 12 months) | 6.6 | 4.9 | 6.6 | 4.9 | 6.6 | 6.1 |
| Equity/assets ratio, % | 39.8 | 39.3 | 39.8 | 39.3 | 39.8 | 41.7 |
| Net debt/equity ratio, % | 89.9 | 93.7 | 89.9 | 93.7 | 89.9 | 86.2 |
| Return on equity, % | 2.3 | 2.5 | 2.2 | 2.2 | 7.0 | 7.0 |
| Equity per share, SEK | 13.3 | 12.0 | 13.3 | 12.0 | 13.3 | 13.0 |
| Net debt/underlying EBITDA, x (Rolling 12 months) | 4.5 | 4.4 | 4.5 | 4.4 | 4.5 | 4.2 |
| **Cash flow** | | | | | | |
| Cash flow from operating activities | 75 | 54 | 210 | 15 | 326 | 131 |
| Investments in non-current assets | –51 | –39 | –309 | –141 | –370 | –202 |
| Cash flow after investments | 24 | 15 | –99 | –126 | –44 | –71 |
| Cash conversion, % | 80.1 | 79.5 | 75.2 | 69.5 | 76.1 | 72.5 |
| Cash flow from operating activities per share, SEK | 0.3 | 0.2 | 0.7 | 0.1 | 1.1 | 0.5 |
| **Employees** | | | | | | |
| Average number of employees | 2,495 | 2,432 | 2,497 | 2,456 | 2,477 | 2,472 |

# CONSOLIDATED QUARTERLY DATA

| SEKm | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **PROFIT AND LOSS ACCOUNT** | | | | | | | | | |
| Net sales | 1,303 | 1,238 | 1,193 | 1,441 | 1,194 | 1,131 | 1,127 | 1,404 | 1,159 |
| Cost of goods sold | –803 | –770 | –769 | –939 | –741 | –696 | –705 | –930 | –730 |
| **Gross profit** | **500** | **468** | **424** | **502** | **453** | **435** | **422** | **474** | **429** |
| Other income | 3 | 1 | 0 | 0 | 2 | 3 | 7 | 9 | 4 |
| Selling expenses | –195 | –257 | –203 | –219 | –197 | –228 | –206 | –211 | –185 |
| General and administrative expenses | –130 | –127 | –169 | –108 | –127 | –156 | –165 | –190 | –158 |
| **Operating profit/loss** | **178** | **85** | **52** | **175** | **131** | **54** | **58** | **82** | **90** |
| Exchange gains/losses on borrowings and cash and cash equivalents in foreign currencies | 7 | –3 | –1 | –5 | 34 | –78 | 37 | 39 | –14 |
| Other financial income | 1 | 2 | 1 | 2 | 2 | 11 | 9 | 2 | 0 |
| Other financial expenses | –60 | –65 | –50 | –45 | –66 | –54 | –55 | –51 | –46 |
| **Net financial items** | **–52** | **–66** | **–50** | **–48** | **–30** | **–121** | **–9** | **–10** | **–60** |
| **Profit/loss before tax** | **126** | **19** | **2** | **127** | **101** | **–67** | **49** | **72** | **30** |
| Income tax expense | –39 | –10 | –14 | 59 | –15 | 23 | –13 | 83 | –17 |
| **Profit/loss for the period** | **87** | **9** | **–12** | **186** | **86** | **–44** | **36** | **155** | **13** |
| *Profit/loss for the period attributable to:* | | | | | | | | | |
| Owners of the Parent Company | 87 | 9 | –12 | 186 | 86 | –44 | 36 | 155 | 13 |
| **KEY FIGURES** | | | | | | | | | |
| Underlying EBIT | 178 | 110 | 77 | 231 | 160 | 109 | 91 | 201 | 124 |
| Underlying EBITDA | 221 | 155 | 123 | 274 | 205 | 148 | 139 | 244 | 168 |
| Return on equity, % (Rolling 12 months) | 7.0 | 7.0 | 5.7 | 7.0 | 6.7 | 4.6 | 2.5 | –2.2 | –3.2 |
| Equity per share, SEK | 13.3 | 13.2 | 13.0 | 13.0 | 12.0 | 11.9 | 11.4 | 11.5 | 11.2 |
| Net debt/underlying EBITDA, x (Rolling 12 months) | 4.5 | 4.6 | 4.4 | 4.2 | 4.4 | 4.6 | 4.7 | 5.1 | 5.3 |
| Cash flow from operating activities per share, SEK | 0.3 | 0.2 | 0.3 | 0.4 | 0.2 | –0.1 | –0.1 | 0.5 | 0.3 |

# Parent Company

## SUMMARY PARENT COMPANY PROFIT AND LOSS ACCOUNTS

| | Third quarter | | 9 months | | |
|---|---|---|---|---|---|
| SEKm | Jul–Sep 2014 | Jul–Sep 2013 | Jan–Sep 2014 | Jan–Sep 2013 | Full year 2013 |
| Net sales | 26 | 24 | 69 | 55 | 86 |
| **Gross profit** | **26** | **24** | **69** | **55** | **86** |
| Other income | – | 2 | 0 | 12 | 12 |
| General and administrative expenses | –23 | –29 | –81 | –90 | –124 |
| **Operating profit/loss** | **3** | **–3** | **–12** | **–23** | **–26** |
| Net financial items | –12 | –28 | –37 | –50 | 29 |
| **Profit/loss before tax** | **–9** | **–31** | **–49** | **–73** | **3** |
| Income tax | 4 | 7 | 11 | 17 | –1 |
| **Profit/loss for the period** | **–5** | **–24** | **–38** | **–56** | **2** |

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

## SUMMARY PARENT COMPANY BALANCE SHEET

| SEKm | 30 Sep 2014 | 30 Sep 2013 | 31 Dec 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **5,185** | **5,236** | **5,157** |
| **Current assets** | **40** | **3** | **89** |
| **TOTAL ASSETS** | **5,225** | **5,239** | **5,246** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | **4,190** | **4,162** | **4,221** |
| **Non-current liabilities** | | | |
| Borrowings | 989 | 975 | 988 |
| Provisions | 1 | – | 1 |
| **Total non-current liabilities** | **990** | **975** | **989** |
| **Current liabilities** | | | |
| Borrowings | – | 0 | – |
| Current liabilities | 45 | 102 | 36 |
| **Total current liabilities** | **45** | **102** | **36** |
| **TOTAL EQUITY AND LIABILITIES** | **5,225** | **5,239** | **5,246** |
| Pledged assets | 4,623 | 4,623 | 4,623 |
| Contingent liabilities | 3,275 | 2,536 | 3,078 |

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

| SEKm | Jan–Sep 2014 | Jan–Sep 2013 | Jan–Dec 2013 |
|---|---|---|---|
| **Equity at beginning of period** | **4,221** | **4,216** | **4,216** |
| Profit/loss for the period | –38 | –56 | 2 |
| **Total comprehensive income** | **–38** | **–56** | **2** |
| **Transactions with owners** | | | |
| Share-based long-term incentive plan | 7 | 2 | 3 |
| **Total transactions with owners** | **7** | **2** | **3** |
| **Equity at end of period** | **4,190** | **4,162** | **4,221** |

# Disclosures, risk factors and accounting policies

## DISCLOSURES

### Parent Company

Cloetta AB's primary activities include head office functions such as group-wide management and administration. The comments below refer to the period from 1 January to 30 September 2014. Net sales in the Parent Company reached SEK 69m (55) and referred mainly to intra-group services. Operating profit was SEK –12m (–23). Net financial items totalled SEK –37m (–50). Profit before tax was SEK –49m (–73) and profit after tax was SEK –38m (–56). Cash and cash equivalents and short-term investments amounted to SEK 0m (0).

### The Cloetta share

Cloetta's class B share is listed on Nasdaq Stockholm, Mid Cap. During the period from 1 January to 30 September 2014, a total of 119,921,794 shares were traded for a combined value of SEK 2,656m, equal to around 43 per cent of the total number of class B shares at the end of the period. The highest quoted bid price during the period from 1 January to 30 September 2014 was SEK 24.50 (1 April) and the lowest was SEK 19.40 (2 January). The share price on 30 September 2014 was SEK 21.60 (last price paid). During the period from 1 January to 30 September 2014, the Cloetta share rose by 11 per cent while the Nasdaq Stockholm PI index rose by 6 per cent.

Cloetta's share capital at 30 September 2014 amounted to SEK 1,443,096,495. The total number of shares is 288,619,299, consisting of 9,861,614 class A shares and 278,757,685 class B shares, equal to a quota value of SEK 5 per share.

### Shareholders

On 30 September 2014 Cloetta AB had 9,612 shareholders (7,616 at 30 June 2014). The largest shareholder was AB Malfors Promotor with a holding corresponding to 41.3 per cent of the votes and 23.2 per cent of the share capital in the company. AMF was the second largest shareholder with a holding corresponding to 10.1 per cent of the votes and 13.2 per cent of the share capital. The third largest shareholder was Lannebo Fonder with a holding corresponding to 4.8 per cent of the votes and 6.3 per cent of the share capital in the company.

Institutional investors held 91.1 per cent of the votes and 88.4 per cent of the share capital. Foreign shareholders held 16.7 per cent of the votes and 21.9 per cent of the share capital.

### Related party transactions

AB Malfors Promotor is considered to be a related party. Buying and selling goods and services between Cloetta and the principal shareholders are regarded as related party transactions.

In 2014 no transactions between Cloetta AB (publ) including its subsidiaries and AB Malfors Promotors including its subsidiaries have incurred. During the first quarter of 2013 Cloetta AB sold a property to Phlisa Metall AB, a subsidiary of AB Malfors Promotor, for a value of SEK 6m, generating a profit of SEK 3m. The property was sold at market value.

The Parent Company has related party transactions with subsidiaries in the Group. The majority of such transactions refer to the sale of services, which for the period from January to September 2014 amounted to SEK 69m (55), equal to 100 per cent of each period's total sales.

At 30 September 2014 the Parent Company's receivables from subsidiaries amounted to SEK 584m (592) and liabilities to subsidiaries amounted to SEK 8m (64). Transactions with related parties are priced on market-based terms. Total costs related to Long Term Incentive Program (LTI) 2013 and 2014 that were recognised in the first three quarters of 2014 amounted to SEK 8.1m (2.3), of which SEK 2.8m (0.5) is related to group management.

### Taxes

In the first three quarters of 2014, non-deductible interest and expenses and adjustment of a filing position for tax of prior periods that were recognised in the period had a negative effect on income tax expenses. Cloetta's deferred tax balances have been calculated according to the enacted tax rates.

## RISK FACTORS

Cloetta is an internationally active company that is exposed to a number of market and financial risks. All identified risks are monitored continuously and, if needed, risk mitigating measures are taken to limit their impact. The most relevant risk factors are described in the annual report for 2013 and consist of industry- and market-related risks, operational risks and financial risks. Compared to the annual report for 2013, which was issued on 14 March 2014, no new risks have been identified.

## ACCOUNTING POLICIES

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) which have been endorsed by the European Commission for application in the EU. The applied standards and interpretations are those that were in force and had been endorsed by the EU at 1 January 2014. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied. The consolidated interim report is presented in accordance with IAS 34, Interim Financial Reporting, and in compliance with the relevant provisions in the Swedish Annual

Accounts Act and the Swedish Securities Market Act. The interim report for the Parent Company has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Securities Market Act, which are consistent with the provisions in recommendation RFR 2, Accounting for Legal Entities. The same accounting and valuation methods have been applied as in the most recent annual report, except for new standards and amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2014 that have not been already applied in preparing the 2013 consolidated financial statements.

### Changed accounting standards

The Group has applied the revised IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interest in Other Entities" and IFRIC 21 "Levies" with effect from the first quarter of 2014. The changes in these standards have not had any material impact on the recognition or measurement and the financial reporting disclosure requirements.

### Fair Value Measurement

The only items recognised at fair value after initial recognition are the interest rate swaps categorised at level 2 of the fair value hierarchy in all periods presented, the contingent earn-out considerations related to the acquisition of FTF Sweets Ltd., Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and the contingent liability arising from the option agreement for Aran Candy Ltd. categorised at level 3, as well as assets held for sale, in cases where the fair value less cost to sell is lower than the carrying amount. The fair values of financial assets (loans and receivables) and liabilities measured at amortised cost are approximately equal to their carrying amounts. The fair value of financial assets and liabilities for measurement purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value derived is used as the carrying amount. IFRS 13 requires disclosure of fair value measurements by level according to the following fair value measurement hierarchy:

> Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

> Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

> Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

**The following table presents the Group's assets and liabilities that were measured at fair value at 30 September 2014**

| SEKm | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| *Assets at fair value through profit or loss* | | | | |
| - Non-current assets measured at fair value | – | – | 16 | 16 |
| **Total assets** | **–** | **–** | **16** | **16** |
| | | | | |
| **Liabilities** | | | | |
| *Liabilities at fair value through profit or loss* | | | | |
| - Interest rate swaps | – | 23 | – | 23 |
| - Contingent earn-out consideration | – | – | 170 | 170 |
| **Total liabilities** | **–** | **23** | **170** | **193** |

**The following table presents the Group's assets and liabilities that were measured at fair value at 31 December 2013**

| SEKm | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| *Assets at fair value through profit or loss* | | | | |
| - Non-current assets measured at fair value | – | – | 15 | 15 |
| **Total assets** | **–** | **–** | **15** | **15** |
| | | | | |
| **Liabilities** | | | | |
| *Liabilities at fair value through profit or loss* | | | | |
| - Interest rate swaps | – | 3 | – | 3 |
| - Contingent earn-out consideration | – | – | 2 | 2 |
| **Total liabilities** | **–** | **3** | **2** | **5** |

**The following table presents the Group's assets and liabilities that were measured at fair value at 30 September 2013**

| SEKm | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| *Assets at fair value through profit or loss* | | | | |
| - Non-current assets measured at fair value | – | 0 | 18 | 18 |
| **Total assets** | **–** | **0** | **18** | **18** |
| | | | | |
| **Liabilities** | | | | |
| *Liabilities at fair value through profit or loss* | | | | |
| - Interest rate swaps | – | 5 | – | 5 |
| - Contingent earn-out consideration | – | – | 12 | 12 |
| **Total liabilities** | **–** | **5** | **12** | **17** |

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

| SEKm | Jan–Sep 2014 | Jan–Sep 2013 | Full Year 2013 |
|---|---|---|---|
| Opening balance | 2 | – | – |
| Business combinations | 158 | 11 | 11 |
| *Remeasurements recognised in profit and loss* | | | |
| - Unrealised Interest on contingent earn-out considerations recognised in other financial expenses | 10 | – | – |
| - Unrealised remeasurements on contingent earn-out considerations recognised in general and administrative expenses | – | 1 | –9 |
| **Closing balance** | **170** | **12** | **2** |

The remeasurements recognised in profit and loss in 2014 are unrealised interest additions to the contingent earn-out considerations which are recognised in the other financial expenses.

No transfer between fair level hierarchies has incurred during the financial year nor the prior financial year.

The non-current assets measured at fair value at 30 September 2014 consisted of the land and building in Zola Predosa, Italy.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included at level 2. The valuation of the instruments is based on quoted market prices, but the underlying swap amounts are based on the specific requirements of the Group. These instruments are therefore included at level 2. The fair value measurement of the contingent earn-out liability requires the use of significant unobservable inputs and is thereby categorised at level 3. The valuation techniques and inputs used to value financial instruments are:

> Quoted market prices or dealer quotes for similar instruments.
> The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
> The fair value of the assets held for sale is based on valuations by external independent valuators.
> Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fixed assets measured at fair value are identified as a non-recurring fair value measurement and are related to the assets held for sale. The assets are valued at fair value because the fair value less cost to sell is lower than the carrying amount. The contingent earn-out liabilities are measured at fair value using a scenario model with an earn-out threshold, different results and related changes, and an applicable multiplier as input. These data are aligned with the earn-out contracts. In Q1 the contingent earn-out liability related to the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and in Q2 the contingent liability related to the acquisition of Aran Candy Ltd. that is included in the preliminary purchase price allocation resulted in an increase in the contingent liability.

For the interest rate swaps, see the financial position paragraph on page 4. For detailed information about the accounting policies, see Cloetta's annual report for 2013 at www.cloetta.com.

## ACQUISITION OF ARAN CANDY LTD.

On 28 May 2014, Cloetta acquired control of Aran Candy Ltd. by acquiring 100 per cent of the total outstanding ordinary shares and 0 per cent of the total outstanding class A shares, equalling in aggregate 75 per cent of the outstanding shares. This transaction provided Cloetta with 100 per cent of the voting rights in Aran Candy Ltd., although less than 100 per cent of all outstanding shares were acquired.

| SEKm | |
|---|---|
| **Consideration paid** | |
| Cash paid | 159 |
| Contingent consideration | 48 |
| **Consideration transferred** | **207** |
| *Recognised amounts of identifiable assets and liabilities assumed:* | |
| **Non-current assets** | **110** |
| Intangible assets (excl. goodwill) | 91 |
| Property, plant and equipment | 19 |
| Other non-current assets | 0 |
| **Current assets** | **64** |
| Inventories | 27 |
| Trade and other receivables | 14 |
| Cash and cash equivalents | 23 |
| **Non-current liabilities** | **–16** |
| Other non-current liabilities | –12 |
| Provisions | –4 |
| **Current liabilities** | **–16** |
| Borrowings | 0 |
| Other current liabilities | –16 |
| **Total identifiable net assets** | **142** |
| Goodwill | 65 |
| **Consideration transferred** | **207** |

As part of the transaction, Cloetta entered into a put/call construction on the class A shares in which the exercise price for the put option is the same as for the call option. As a result, the construction is treated as a forward purchase of the class A shares. The primary motive for the acquisition is to broaden Cloetta's product portfolio as part of its 'Munchy Moments' strategy.

The total consideration amounts to SEK 159m in cash and the fair value of the contingent consideration (deferred payment) is SEK 48m. The contingent consideration will amount to at least SEK 0m and is unlimited based on 2015 results of Aran Candy Ltd.. The contingent consideration is based on the adjusted results for the financial year 2015 (level 3 fair value). The goodwill of SEK 65m relates primarily to the potential of new distribution channels, the workforce, creating diversity in Cloetta's branded portfolio and new market/sales opportunities in Cloetta's markets. The contingent liabilities recognised as part of the purchase price allocation amount to SEK 2m. The selling shareholders of Aran Candy Ltd. have contractually agreed to indemnify Cloetta for certain liabilities under the terms and conditions of the sales and purchase agreement in an amount of SEK 0.5m. The total of transaction cost related to the acquisition amounted to SEK 8m and is fully recognised in the profit and loss account for the period concerned as 'General and aministrative expenses'.

Due to the short-term nature of the receivables, the fair value approximates the gross contractual amounts. The contractual cash flows that are not expected to be collected are immaterial. The net sales and operating profit for the period 28 May 2014 up to and including 30 September 2014 amounted to SEK 42m and SEK 5m respectively. If Aran Candy Ltd. had been consolidated as of 1 January 2014, it would have (pro forma) contributed SEK 85m to consolidated revenues and (pro forma) SEK 13m to operating profit including the impact of accounting for business combinations. Because Aran Candy Ltd. was acquired on 28 May 2014, the accounting for the business combination is preliminary and has not yet been finalised. The goodwill acquired is allocated to the group of cash generating units Middle.

## ACQUISITION OF ALRIFAI NUTISAL AB

On 8 January 2014, Cloetta Holland B.V. acquired control of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) by acquiring 100 per cent of the share capital. The primary reason for the acquisition is to broaden Cloetta's product portfolio as part of its 'Munchy Moments' strategy.

| SEKm | |
|---|---|
| **Consideration paid** | |
| Cash paid | 110 |
| Contingent consideration | 110 |
| **Consideration transferred** | **220** |
| *Recognised amounts of identifiable assets and liabilities assumed:* | |
| **Non-current assets** | **219** |
| Intangible assets (excl. goodwill) | 147 |
| Property, plant and equipment | 24 |
| Other non-current assets | 48 |
| **Current assets** | **79** |
| Inventories | 46 |
| Trade and other receivables | 32 |
| Cash and cash equivalents | 1 |
| **Non-current liabilities** | **–39** |
| Borrowings | –2 |
| Other non-current liabilities | –32 |
| Provisions | –5 |
| **Current liabilities** | **–100** |
| Borrowings | –18 |
| Other current liabilities | –82 |
| **Total identifiable net assets** | **159** |
| Goodwill | 61 |
| **Consideration transferred** | **220** |

The total consideration consists of SEK 110m in cash and contingent consideration measured at fair value of SEK 110m. The contingent consideration will amount to at least SEK 50m and at most SEK 300m, and is based on the adjusted results for the financial year 2016. The contingent consideration is categorised at level 3 of the fair value hierarchy.

The goodwill of SEK 61m relates primarily to the potential of new distribution channels, the workforce and expected cost synergies.

The contingent liabilities recognised as part of the purchase price allocation amount to SEK 5m. The selling shareholders of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) have contractually agreed to indemnify the company for certain liabilities under the terms and conditions of the sale and purchase agreement in an amount of SEK 5m. The total transaction costs related to the acquisition amounted to SEK 0.3m and are fully recognised in the profit and loss account for the period concerned as "General and administrative expenses". Due to the short-term nature of the receivables, the fair value approximates the gross contractual amounts. The contractual cash flows that are not expected to be collected are immaterial. Had Cloetta Nutisal AB been consolidated from 1 January 2014, it would have (pro forma) contributed SEK 100m to consolidated net sales and (pro forma) SEK –16m to operating profit for the year.

Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) was acquired on 8 January 2014. The accounting for the business combination is preliminary and has not yet been finalised. The goodwill acquired is allocated to the group of cash-generating units Scandinavia.

# DEFINITIONS

| | |
|---|---|
| **General** | All amounts in the tables are presented in SEK millions unless otherwise stated. All amounts in brackets () represent comparable figures for the same period of the prior year, unless otherwise stated. |
| **Margins** | |
| **EBITDA margin** | EBITDA expressed as a percentage of net sales. |
| **Gross margin** | Net sales less cost of goods sold as a percentage of net sales. |
| **Operating margin (EBIT margin)** | Operating profit expressed as a percentage of net sales. |
| **Profit margin** | Profit/loss before tax expressed as a percentage of net sales. |
| **Return** | |
| **Cash conversion** | Underlying EBITDA less capital expenditures as a percentage of underlying EBITDA. |
| **Return on capital employed** | Operating profit plus financial income as a percentage of average capital employed. |
| **Return on equity** | Profit for the period as a percentage of total equity. |
| **Capital structure** | |
| **Capital employed** | Total assets less interest-free liabilities (including deferred tax). |
| **Equity/assets ratio** | Equity at the end of the period as a percentage of total assets. |
| **Gross debt** | Gross current and non-current borrowings including credit overdraft facility, derivative financial instruments and interest payables. |
| **Net debt** | Gross debt less cash and cash equivalents. |
| **Net debt/equity ratio** | Net debt at the end of the period divided by equity at the end of the period. |
| **Working capital** | Total inventories and trade and other receivables adjusted for trade and other payables. |
| **Data per share** | |
| **Earnings per share** | Profit for the period divided by the average number of shares. |
| **Other definitions** | |
| **EBIT** | Operating profit or earnings before interest and taxes. |
| **EBITDA** | Operating profit before depreciation and amortisation. |
| **Items affecting comparability** | Items affecting comparability relate to non-recurring items, exchange rate differences between actual and constant rate and the impact of acquisitions on the group results. |
| **Net sales, change** | Net sales as a percentage of net sales in the comparative period of the previous year. |
| **Underlying net sales, EBIT, EBIT margin** | The underlying figures are based on constant exchange rates and the current structure, excluding the acquisitions of Nutisal and The Jelly Bean Factory and items affecting comparability. |

# GLOSSARY

| | |
|---|---|
| **Factory restructurings / restructurings** | Due to excess capacity, Cloetta has closed factories in Sweden, Denmark and Finland during 2012/2013. In 2014 the factory in Gävle has been closed and its production has been moved to Ljungsbro, Sweden, and Levice, Slovakia. |
| **Integration** | Cloetta and LEAF were merged on 15 February 2012. The integration has primarily consisted of processes to form a new common culture, but also of restructuring of the commercial organisation and administration in Sweden, rationalisation of warehouse operations in Scandinavia and insourcing of third-party brands. |

# EXCHANGE RATES

| | 30 Sep 2014 | 30 Sep 2013 | 31 Dec 2013 |
|---|---|---|---|
| EUR, average | 9,0526 | 8,5800 | 8,6513 |
| EUR, end of period | 9,1471 | 8,6500 | 8,8630 |
| NOK, average | 1,0926 | 1,1192 | 1,1071 |
| NOK, end of period | 1,1286 | 1,0672 | 1,0592 |
| GBP, average | 11,1720 | 10,0838 | 10,1987 |
| GBP, end of period | 11,7663 | 10,3593 | 10,6501 |
| DKK, average | 1,2137 | 1,1507 | 1,1601 |
| DKK, end of period | 1,2290 | 1,1599 | 1,1882 |

# FINANCIAL CALENDAR

| | | | |
|---|---|---|---|
| 2015 | JANUARY | | |
| | FEBRUARY | Year-end report 2014 | 13 February 2015 |
| | MARCH | | |
| | APRIL | Annual report 2014 | At the latest in the beginning of April 2015 |
| | | Interim report Q1 2015 | 23 April 2015 |
| | | AGM in Stockholm | 23 April 2015 |
| | MAY | | |
| | JUNE | | |
| | JULY | Interim report Q2 2015 | 17 July 2015 |
| | AUGUST | | |
| | SEPTEMBER | | |
| | OCTOBER | | |
| | NOVEMBER | Interim report Q3 2015 | 11 November 2015 |
| | DECEMBER | | |
| 2016 | JANUARY | | |
| | FEBRUARY | Year-end report 2015 | 18 February 2016 |

## CONTACTS

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*The information in this interim report is such that Cloetta is required to disclose in accordance with the Securities Market Act. The report was released for publication at 8:00 a.m. CET on 14 November 2014.*

## ABOUT CLOETTA

Cloetta, founded in 1862, is a leading confectionery company in the Nordic region, the Netherlands and Italy. In total, Cloetta products are sold in more than 50 countries worldwide. Cloetta owns some of the strongest brands on the market, such as Läkerol, Cloetta, Jenkki, Kexchoklad, Malaco, Sportlife, Saila, Red Band and Sperlari. Cloetta has 11 production units in six countries. Cloetta's class B shares are traded on Nasdaq Stockholm.


## VISION

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

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

## BUSINESS MODEL

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

## LONG-TERM FINANCIAL TARGETS

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

> Cloetta's target is an underlying EBIT margin of at least 14 per cent.

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

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

## STRATEGIES

> Focus on margin expansion and volume growth.

> Focus on cost-efficiency.

> Focus on employee development.

## VALUE DRIVERS

> Strong brands and market positions in a non-cyclical market.

> Excellent availability in the retail trade with the help of a strong and effective sales and distribution organisation.

> Good consumer knowledge and loyalty.

> Innovative product and packaging development.

> Effective production with high and consistent quality.