Cloetta

Interim report, Q3, July – September 2016

Stockholm, 27 October 2016

- **Net sales for the quarter** decreased by 0.8 per cent to SEK 1,448m (1,459), including a negative impact of foreign exchange rates of –0.1 per cent. Organic growth was –0.7 per cent.
- **Operating profit** increased to SEK 216m (212). Operating profit, adjusted, increased to SEK 224m (194).
- **Cash flow** from operating activities amounted to SEK 116m (174).
- **Net debt/EBITDA**[1] ratio was 2.76x (3.39).
- **Danko Maras, CFO,** was appointed interim President & CEO as of 1 September 2016.
- **A new loan agreement** has been entered into and the senior secured notes have been redeemed.

Key ratios

	Third quarter			9 months			Rolling 12	Full year
SEKm	Jul–Sep 2016	Jul–Sep 2015	Change, %	Jan–Sep 2016	Jan–Sep 2015	Change, %	Oct 2015–Sep 2016	2015
Net sales	1,448	1,459	–0.8[2]	4,168	4,052	2.9[2]	5,790	5,674
Operating profit, adjusted	224	194	15.5	500	435	14.9	755	690
Operating profit margin, adjusted, %	15.5	13.3	2.2-pts	12.0	10.7	1.3-pts	13.0	12.2
Operating profit (EBIT)	216	212	1.9	466	432	7.9	705	671
Operating profit margin (EBIT margin), %	14.9	14.5	0.4–pts	11.2	10.7	0.5–pts	12.2	11.8
Profit before tax	145	169	–14.2	317	302	5.0	508	493
Profit for the period	108	130	–16.9	229	229	–	386	386
Earnings per share, basic and diluted, SEK	0.38	0.45	–15.6	0.80	0.80	–	1.35	1.35
Net debt/EBITDA, x (Rolling 12 months)[1]	2.76	3.39	–18.6	2.76	3.39	–18.6	2.76	3.03
Cash flow from operating activities	116	174	–33.3	483	560	–13.8	850	927

1) The definition of net debt/EBITDA has been adjusted per Q3 to present a key figure over time which is irrespective of the applicable facility agreement. The net debt/EBITDA ratio for Q3 2016 based on the previous definition would have been 2.74x. Comparative figures have not been restated as the differences have a limited effect.
2) Organic growth at constant exchange rates and for comparable units was –0.7 per cent for the quarter and 0.2 per cent for the first three quarters of the year. See further under net sales on page 3.

Message from the CEO

Continued improved operating profit

Danko Maras, Interim President and CEO

Cloetta's operating profit (EBIT) improved to SEK 216m (212) in the quarter and the operating profit margin improved to 14.9 per cent (14.5). Profit for the period amounted to SEK 108m (130). Sales were down slightly.

Operating profit, adjusted for items affecting comparability, increased during the quarter to SEK 224m (194). The operating profit margin, adjusted for items affecting comparability, strengthened to 15.5 per cent (13.3). On a rolling 12-month basis, the operating profit margin, adjusted for items affecting comparability, is now 13.0 per cent.

The improvement in operating profit, adjusted for items affecting comparability, was driven by increased efficiency in the supply chain and good cost control. The gradual improvement that Cloetta has shown over the past few quarters has thus continued. Profit before tax has been affected by planned financial one-time costs resulting from the refinancing and early redemption of the senior secured notes. This will contribute to lower interest expenses for Cloetta already in the coming quarter.

Decreased net debt/EBITDA ratio

Cash flow from operating activities amounted to SEK 116m (174). The change in cash flow is among other things due to the one-off cost for refinancing. The net debt/EBITDA ratio improved to 2.76x (3.39).

The confectionery market

The confectionery market was unchanged or showed overall slightly positive development in Sweden, Finland, the Netherlands and Italy. In Denmark and Norway, market development was slightly negative in the quarter.

Sales development

Cloetta's sales declined by 0.8 per cent in the quarter, of which organic growth accounted for –0.7 per cent and exchange rate differences for –0.1 per cent. The downturn in sales is mainly attributable to a weak sales development in the Netherlands and the UK.

Cloetta's sales were up in Sweden, Finland, Italy, Norway and the export markets. In the Netherlands, the UK, Germany, Denmark, and in contract manufacturing, sales declined. The positive sales trend in Sweden and Finland was fuelled mainly by pick-and-mix. Italy showed growth in sales for the first time since 2013 as a result of stabilized market development, but the market is still relatively weak. In Norway, sales increased mainly in sugar confectionery.

The reported drop in sales in the UK is partly attributable to a severely weakened British pound, and in the Netherlands it is mainly attributable to a decline in special products sold to discounters.

Higher sugar prices

The price of sugar has increased in the past year and in line with our pricing strategy we must therefore raise prices towards the customers. The price of hazelnuts has fallen, which has led Cloetta to make certain price adjustments for seasonal products in Italy. Cocoa prices have increased somewhat during the year and prices remain high.

Refinancing and redemption of senior secured notes

In the third quarter Cloetta entered into a new term and revolving facilities agreement with a group of four banks, in total amounting to the equivalent of SEK 3,700m. During the quarter, the new facilities were used to refinance bank loans and to redeem the senior secured notes that were issued in September 2013. Excluding the one-off expenses of around SEK 49m that we have recognized in the third quarter, the facilities agreement, together with the redemption of the senior secured notes, is expected to reduce the Group's net interest expenses by approximately SEK 140m over a five-year period, of which SEK 50m in 2017.

The lower interest expenses will further improve Cloetta's cash flow.

Profitability moving in the right direction

My focus during the quarter has been on ensuring a smooth handover from David Nuutinen, who resigned as CEO of Cloetta during the quarter, and at the same time securing continued improvement in profitability.It is therefore satisfying that Cloetta's profitability has continued to improve, especially in light of the sales trend during the quarter.

Cloetta's net debt/EBITDA ratio has continued to improve , and we are now closing in on our financial target of a net debt/EBITDA ratio of 2.5x.

Although we have seen a stabilization of the market in Italy during the year, profitability has not improved. We are therefore closely following and reviewing the development of the Italian business.

It is always our ambition to strive for organic growth every year. The focus in the coming quarter will therefore be on ensuring that we drive the all-important seasonal sales, above all in Italy but also in Sweden. Profitable growth therefore remains our primary focus.

Danko Maras
Interim President and CEO

Financial overview

Development in the third quarter

Net sales

Net sales for the third quarter decreased by 11m to SEK 1,448m (1,459) compared to the same period of last year. Organic growth was –0.7 per cent and changes in exchange rates accounted for –0.1 per cent.

Cloetta's sales were up in Sweden, Finland, Italy, Norway and the export markets. In the Netherlands, the UK, Germany, Denmark, and contract manufacturing, sales declined. The positive sales trend in Sweden and Finland was fuelled mainly by pick-and-mix. Italy showed growth in sales for the first time since 2013 as a result of stabilized market development, but the market is still relatively weak. In Norway, sales increased mainly in sugar confectionery.

The reported drop in sales in the UK is partly attributable to a severely weakened British pound, and in the Netherlands it is mainly attributable to a decline in special products sold to discounters.

Changes in net sales, %	Jul–Sep 2016	Jan–Sep 2016
Organic growth	–0.7	0.2
Structural changes	–	3.1
Changes in exchange rates	–0.1	–0.4
Total	**–0.8**	**2.9**

Gross profit

Gross profit amounted to SEK 574m (565), which is equal to a gross margin of 39.6 per cent (38.7). The improvement in gross margin is mainly due to higher efficiency in the supply chain.

Operating profit

Operating profit improved to SEK 216m (212).The improvement is mainly due to good cost control. Operating profit, adjusted for items affecting comparability, improved to SEK 224m (194).

Items affecting comparability

Operating profit for the quarter includes items affecting comparability of SEK –8m (18) mainly related to the planned closure of the factory in Dieren, the Netherlands.

Net financial items

Net financial items for the quarter amounted to SEK –71m (–43). The net financial items were negatively impacted by a one-off cost of SEK 49m, of which SEK 19m is non-cash in nature, related to the refinancing of the Group. The one-off cost is related to the call option fee for the redemption of the senior secured notes of SEK –30m and the full amortization of the capitalized transaction costs related to the previous external financing of the Group for an amount of SEK –19m.

Profit for the period

Profit for the period was SEK 108m (130), which is equal to basic and diluted earnings per share of SEK 0.38 (0.45). Income tax for the period was SEK –37m (–39). The effective tax rate for the quarter is 25.5 per cent (23.1).

Cash flow from operating and investing activities

Cash flow from operating activities before changes in working capital was SEK 219m (236). The change compared to the prior year is affected by the call option fee payment of SEK –30m related to the redemption of the senior secured notes. The cash flow from changes in working capital was SEK –103m (–62). Cash flow from operating and investing activities was SEK –31m (–62).

Cash flow from changes in working capital

Cash flow from changes in working capital in the quarter was negatively impacted by the increase in inventories in the quarter amounting to SEK –5m (9). The cash flow from the increase in receivables amounted to SEK –125m (–72). The cash flow from the increase in payables was SEK 27m (1).

Cash flow from investing activities

Cash flow from investing activities was SEK –147m (–236). The settlement of the contingent consideration arising from the option agreement regarding Aran Candy Ltd. resulted in a cash outflow of SEK –106m in the third quarter. In the third quarter of 2015 a net cash flow from investing activities was included for an amount of SEK –206m related to the acquisition of Locawo B.V. The cash flow from investments in property, plant and equipment and intangibles amounted to SEK –42m (–30). Other cash flows from investing activities amounted to SEK 1m (0).

Acquisitions and divestments

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

Developments in the first three quarters of the year

Net sales

Net sales for the first three quarters rose by 116m to SEK 4,168m (4,052) compared to the same period of last year. Organic growth was 0.2 per cent, acquisitions accounted for 3.1 per cent and changes in exchange rates accounted for –0.4 per cent.

Cloetta's sales were up in Sweden, Finland and Norway, but declined in the Netherlands, Italy, Denmark, Germany and the UK. Contract manufacturing also declined.

Gross profit

Gross profit amounted to SEK 1,652m (1,580), which is equal to a gross margin of 39.6 per cent (39.0). The improvement in gross margin is mainly due to higher efficiency in the supply chain.

Operating profit

Operating profit improved to SEK 466m (432).The improvement is mainly due to higher efficiency in the supply chain and good cost control. Operating profit, adjusted for items affecting comparability, improved to SEK 500m (435).

Items affecting comparability

Operating profit for the first three quarters includes items affecting comparability of SEK –34m (–3) that mainly are related to the planned closure of the factory in Dieren, the Netherlands and the remeasurement of contingent considerations.

Net financial items

Net financial items for the first three quarters of the year amounted to SEK –149m (–130). The net financial items were negatively impacted by a one-off cost of SEK 49m, of which SEK 19m is non-cash in nature, related to the refinancing of the Group. The one-off cost is related to the call option fee for the redemption of the senior secured notes of SEK –30m and the full amortization of the capitalized transaction costs related to the previous external financing of the Group for an amount of SEK –19m.

Profit for the period

Profit for the first three quarters of the year was SEK 229m (229), which is equal to basic and diluted earnings per share of SEK 0.80 (0.80). Income tax for the period was SEK –88m (–73). The effective tax rate for the first three quarters of the year is 27.8 per cent (24.2).

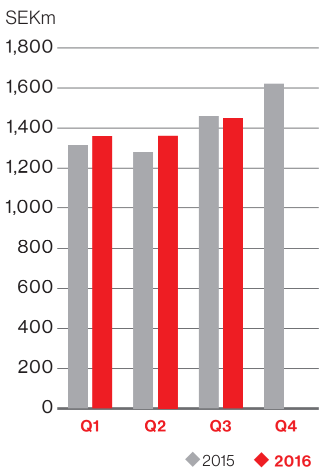
Cash flow from operating and investing activities

Cash flow from operating activities before changes in working capital was SEK 489m (402). The improvement compared to the prior year is mainly the result of an improved operating profit of SEK 34m and improved cash flows from changes in provisions for a total amount of SEK 44m. The cash flow from changes in working capital was SEK –6m (158). Cash flow from operating and investing activities was SEK 266m (241).

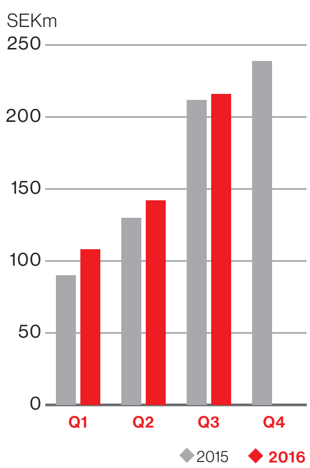
Cash flow from changes in working capital

Cash flow from changes in working capital was negatively impacted by the increase in inventories for an amount of SEK –104m (13) mainly related to the buildup of seasonals. The cash flow from the increase in receivables in the quarter amounted to SEK –1m (175) and was mainly related to collection of the receivables coming from the seasonal sales in Italy. The cash flow from the increase in payables amounted to SEK 99m (–30) and was mainly related to higher purchases related to the buildup of seasonals.

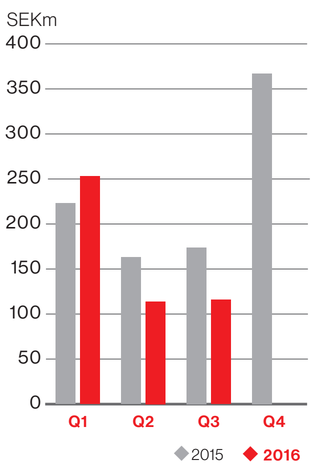
Net sales



Operating profit



Cash flow from operating activities



Cash flow from investing activities

Cash flow from investing activities was SEK –217m (–319). The settlement of the contingent consideration arising from the option agreement regarding Aran Candy Ltd. resulted in a cash outflow of SEK –106m in the third quarter. In the third quarter of 2015 a net cash flow from investing activities was included for an amount of SEK –206m related to the acquisition of Locawo B.V. The cash flow from investments in property, plant and equipment and intangibles amounted to SEK –112m (–113). Other cash flows from investing activities amounted to SEK 1m (0).

Acquisitions and divestments

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

Financial position

Consolidated equity of the Group at 30 September 2016 amounted to SEK 4,565m (4,342), which is equal to SEK 15.8 (15.0) per share. Net debt at 30 September 2016 was SEK 2,757m (3,170).

Non-current borrowings totalled SEK 2,675m (2,759) and consisted of SEK 2,682m (1,777) in gross loans from credit institutions, senior secured notes of SEK 0m (1,000) and SEK –7m (–18) in capitalized transaction costs.

Total current borrowings amounted to SEK 421m (446) and consisted of SEK 425m (366) in gross loans from credit institutions, SEK –4m (–18) in capitalized transaction costs, SEK 0m (97) in credit overdraft facilities and accrued interest on loans from credit institutions and senior secured notes for an amount of SEK 0m (1).

SEKm	30 Sep 2016	30 Sep 2015	31 Dec 2015
Gross non-current borrowings	2,682	1,777	1,625
Gross current borrowings	425	366	360
Credit overdraft facility	–	97	–
Senior secured notes	–	1,000	1,000
Derivative financial instruments (current and non-current)	68	82	78
Interest payable	–	1	1
Gross debt	**3,175**	**3,323**	**3,064**
Cash and cash equivalents	–418	–153	–246
Net debt	**2,757**	**3,170**	**2,818**

Cash and cash equivalents at 30 September 2016, excluding unutilized overdraft facilities, amounted to SEK 418m (153). At 30 September 2016 Cloetta had unutilized credit facilities for a total of SEK 729m (633).

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 2,557 (2,493). The increase is mainly attributable to the impact of the acquisition of Locawo B.V. including its subsidiaries.

Refinancing

In July 2016, Cloetta entered into a new term and revolving facilities agreement with a group of four banks, amounting in total to the equivalent of SEK 3,700m. The new financing package has been used to refinance the existing bank financing on 27 July 2016 and to redeem its senior secured notes on 19 September 2016. The new financing structure will secure Cloetta's ability to pay dividends in the future and will at the same time provide financial flexibility for potential complementary acquisitions.

Events after the balance sheet date

On 4 October 2016 Cloetta Holland B.V. settled the contingent earnout consideration related to the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) for an amount of SEK 48m as recognized in the balance sheet per 30 September 2016.

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

Examples of new launches during the third quarter

Finland
Tupla+ Protein Salty Caramel
Mynthon Xylitol EucaMenthol kalsium+B vitamin
Mynthon Cool Mint
Jenkki Enjoy Suolainen Kinuski
Fudgetoffee

Sweden
Malaco Mixed Fudge
Malaco Mixed Bonbons
Malaco Mixed Toffee
Polly Mint

The Netherlands
Red Band 30% Less Sugar

Denmark
Läkerol Sour Mandarin
Kick Bites Original
Mini Flipper

Sweden and Norway
Cloetta Müsli BITE Nuts
Cloetta Müsli BITE Seeds

Italy
Saila Jelly liquorice

Travel Retail and Denmark
Skipper´s pipe tin box

Norway
Pops XL
Pops Chewy Kick
Kick Bites Original/Lemon

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, 27 October 2016
Cloetta AB (publ)

The Board of Directors

Review report

Cloetta AB (publ)
Org nr 556308-8144

Introduction

We have reviewed the summary interim financial information (interim report) of Cloetta AB (publ) as of 30 September 2016 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, 27 October 2016

KPMG AB
Thomas Forslund
Authorized Public Accountant

Financial statements in summary

Consolidated profit and loss account

	Third quarter		9 months		Rolling 12	Full year
SEKm	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Oct 2015–Sep 2016	2015
Net sales	1,448	1,459	4,168	4,052	5,790	5,674
Cost of goods sold	–874	–894	–2,516	–2,472	–3,507	–3,463
Gross profit	**574**	**565**	**1,652**	**1,580**	**2,283**	**2,211**
Other income	–	0	–	0	–	0
Selling expenses	–227	–228	–708	–712	–945	–949
General and administrative expenses	–131	–125	–478	–436	–633	–591
Operating profit	**216**	**212**	**466**	**432**	**705**	**671**
Exchange differences on borrowings and cash and cash equivalents in foreign currencies	8	–4	2	5	–4	–1
Other financial income	5	0	12	0	18	6
Other financial expenses	–84	–39	–163	–135	–211	–183
Net financial items	**–71**	**–43**	**–149**	**–130**	**–197**	**–178**
Profit before tax	**145**	**169**	**317**	**302**	**508**	**493**
Income tax	–37	–39	–88	–73	–122	–107
Profit for the period	**108**	**130**	**229**	**229**	**386**	**386**
Profit for the period attributable to:						
Owners of the Parent Company	108	130	229	229	386	386
Earnings per share, SEK						
Basic	0.38	0.45	0.80	0.80	1.35	1.35
Diluted[1]	0.38	0.45	0.80	0.80	1.35	1.35
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]	286,279,569	286,154,515	286,163,966	286,371,433	286,135,973	286,290,840
Average number of shares (diluted)[1]	286,558,440	286,408,540	286,392,280	286,599,467	286,341,786	286,561,607

1) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver the shares to the participants of the long-term share-based incentive plan. The table on page 16 presents the movements in the contracts as of 1 January 2014.

Consolidated statement of comprehensive income

SEKm	Third quarter Jul–Sep 2016	Third quarter Jul–Sep 2015	9 months Jan–Sep 2016	9 months Jan–Sep 2015	Rolling 12 Oct 2015–Sep 2016	Full year 2015
Profit for the period	108	130	229	229	386	386
Other comprehensive income						
Remeasurement of defined benefit pension plans	–6	48	–95	95	–63	127
Income tax on other comprehensive income that will not be reclassified subsequently to profit or loss for the period	2	–10	22	–21	15	–28
Items that will never be reclassified to profit or loss for the period	**–4**	**38**	**–73**	**74**	**–48**	**99**
Currency translation differences	105	83	245	–3	124	–124
Hedge of a net investment in a foreign operation	–26	–21	–55	–1	–29	25
Income tax on other comprehensive income that will be reclassified subsequently to profit or loss for the period, when specific conditions are met	6	4	12	0	7	–5
Items that are or may be reclassified to profit or loss for the period	**85**	**66**	**202**	**–4**	**102**	**–104**
Total other comprehensive income	**81**	**104**	**129**	**70**	**54**	**–5**
Total comprehensive income, net of tax	**189**	**234**	**358**	**299**	**440**	**381**
Total comprehensive income for the period attributable to:						
Owners of the Parent Company	189	234	358	299	440	381

Net financial items

SEKm	Third quarter Jul–Sep 2016	Third quarter Jul–Sep 2015	9 months Jan–Sep 2016	9 months Jan–Sep 2015	Rolling 12 Oct 2015–Sep 2016	Full year 2015
Exchange differences on borrowings and cash	**8**	**–4**	**2**	**5**	**–4**	**–1**
Other financial income, third parties	0	0	1	0	2	1
Unrealized gains on single currency interest rate swaps	5	–	11	–	16	5
Other financial income	**5**	**0**	**12**	**0**	**18**	6
Interest expenses on third-party borrowings and realized losses on single currency interest rate swaps	–21	–27	–70	–94	–96	–120
Interest expenses, contingent earn-out liabilities	–3	–4	–10	–11	–12	–13
Call option fee redemption senior secured notes	–30	–	–30	–	–30	–
Amortization of capitalized transaction costs	–24	–4	–33	–13	–38	–18
Unrealized losses on single currency interest rate swaps	–	1	–	1	–1	–
Other financial expenses	–6	–5	–20	–18	–34	–32
Other financial expenses	**–84**	**–39**	**–163**	**–135**	**–211**	–183
Net financial items	**–71**	**–43**	**–149**	**–130**	**–197**	**–178**

Condensed consolidated balance sheet

SEKm	30 Sep 2016	30 Sep 2015	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	6,156	6,063	5,948
Property, plant and equipment	1,707	1,740	1,698
Deferred tax asset	50	69	64
Other financial assets	21	114	27
Total non-current assets	**7,934**	**7,986**	**7,737**
Current assets			
Inventories	917	873	786
Other current assets	1,005	1,033	978
Derivative financial instruments	3	1	1
Cash and cash equivalents	418	153	246
Total current assets	**2,343**	**2,060**	**2,011**
Assets held for sale	9	16	11
TOTAL ASSETS	**10,286**	**10,062**	**9,759**
EQUITY AND LIABILITIES			
Equity	**4,565**	**4,342**	**4,344**
Non-current liabilities			
Long-term borrowings	2,675	2,759	2,612
Deferred tax liability	680	606	621
Derivative financial instruments	12	47	44
Other non-current liabilities	–	43	43
Provisions for pensions and other long-term employee benefits	474	411	378
Provisions	10	11	10
Total non-current liabilities	**3,851**	**3,877**	**3,708**
Current liabilities			
Short-term borrowings	421	446	344
Derivative financial instruments	59	36	35
Other current liabilities	1,383	1,349	1,271
Provisions	7	12	57
Total current liabilities	**1,870**	**1,843**	**1,707**
TOTAL EQUITY AND LIABILITIES	**10,286**	**10,062**	**9,759**

Condensed consolidated statement of changes in equity

SEKm	9 months Jan–Sep 2016	9 months Jan–Sep 2015	Full year 2015
Equity at beginning of period	**4,344**	**4,048**	**4,048**
Profit for the period	229	229	386
Other comprehensive income	129	70	–5
Total comprehensive income	**358**	**299**	**381**
Transactions with owners			
Reversal of capital contribution	–	–	–84
Forward contract to repurchase own shares[1]	–3	–12	–12
Result on roll-forward contract to repurchase own shares[1]	7	–	–
Shares granted to participants LTI'13 (settlement of forward contract to repurchase own shares)[1]	–4	–	–
Share-based payments	7	7	11
Dividend	–144	–	–
Total transactions with owners	**–137**	**–5**	**–85**
Equity at end of period	**4,565**	**4,342**	**4,344**

1) The forward contract to repurchase own shares covering 937,610 Cloetta AB shares for an amount of SEK 18.50678 was settled in May 2016. 227,880 shares were granted to participants in the long-term share-based incentive plan 2013 in May 2016. For the remaining 709,730 shares Cloetta entered into a forward contract to repurchase own shares for an amount of SEK 28.50 in June 2016.

Condensed consolidated cash flow statement

SEKm	Third quarter Jul–Sep 2016	Third quarter Jul–Sep 2015	9 months Jan–Sep 2016	9 months Jan–Sep 2015	Rolling 12 Oct 2015–Sep 2016	Full year 2015
Cash flow from operating activities before changes in working capital	219	236	489	402	784	697
Cash flow from changes in working capital	–103	–62	–6	158	66	230
Cash flow from operating activities	**116**	**174**	**483**	**560**	**850**	**927**
Cash flow from investments in property, plant and equipment and intangible assets	–42	–30	–112	–113	–160	–161
Cash flow from other investing activities	–105	–206	–105	–206	–105	–206
Cash flow from investing activities	**–147**	**–236**	**–217**	**–319**	**–265**	**–367**
Cash flow from operating and investing activities	**–31**	**–62**	**266**	**241**	**585**	**560**
Cash flow from financing activities	**213**	**–28**	**–109**	**–307**	**–320**	**–518**
Cash flow for the period	**182**	**–90**	**157**	**–66**	**265**	**42**
Cash and cash equivalents at beginning of period	233	261	246	229	153	229
Cash flow for the period	182	–90	157	–66	265	42
Foreign exchange difference	3	–18	15	–10	0	–25
Cash and cash equivalents at end of period	**418**	**153**	**418**	**153**	**418**	**246**

Condensed consolidated key figures

	Third quarter		9 months		Rolling 12	Full year
SEKm	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Oct 2015–Sep 2016	2015
Profit						
Net sales	1,448	1,459	4,168	4,052	5,790	5,674
Net sales, change, %	–0.8	12.0	2.9	8.5	2.8	6.8
Organic net sales, change, %	–0.7	4.2	0.2	3.1	–0.5	1.5
Gross margin, %	39.6	38.7	39.6	39.0	39.4	39.0
Depreciation	–61	–58	–178	–168	–237	–227
Amortization	–2	–1	–5	–3	–6	–4
Operating profit, adjusted	224	194	500	435	755	690
Operating profit margin, adjusted, %	15.5	13.3	12.0	10.7	13.0	12.2
Operating profit (EBIT)	216	212	466	432	705	671
Operating profit margin (EBIT margin), %	14.9	14.5	11.2	10.7	12.2	11.8
EBITDA, adjusted	287	253	683	606	998	921
EBITDA	279	271	649	603	948	902
Profit margin, %	10.0	11.6	7.6	7.5	8.8	8.7
Financial position						
Working capital	656	709	656	709	656	628
Capital expenditure	42	31	112	114	159	161
Net debt	2,757	3,170	2,757	3,170	2,757	2,818
Capital employed	8,206	8,040	8,206	8,040	8,206	7,756
Return on capital employed, % (Rolling 12 months)	8.9	8.7	8.9	8.7	8.9	8.6
Equity/assets ratio, %	44.4	43.2	44.4	43.2	44.4	44.5
Net debt/equity, %	60.4	73.0	60.4	73.0	60.4	64.9
Return on equity, % (Rolling 12 months)	8.5	8.9	8.5	8.9	8.5	8.9
Equity per share, SEK	15.8	15.0	15.8	15.0	15.8	15.1
Net debt/EBITDA, x (Rolling 12 months)[1]	2.76	3.39	2.76	3.39	2.76	3.03
Cash flow						
Cash flow from operating activities	116	174	483	560	850	927
Cash flow from investing activities	–147	–236	–217	–319	–265	–367
Cash flow after investments	–31	–62	266	241	585	560
Cash conversion, %	85.4	87.7	83.6	81.2	84.1	82.5
Cash flow from operating activities per share, SEK	0.4	0.6	1.7	1.9	2.9	3.2
Employees						
Average number of employees	2,557	2,493	2,521	2,543	2,532	2,583

1) The definition of net debt/EBITDA has been adjusted per Q3 to present a key figure over time which is irrespective of the applicable facility agreement. The net debt/EBITDA ratio for Q3 2016 based on the previous definition would have been 2.74x. Comparative figures have not been restated as the differences have a limited effect.

Reconciliation of alternative performance measures

SEKm	Third quarter Jul–Sep 2016	Third quarter Jul–Sep 2015	9 months Jan–Sep 2016	9 months Jan–Sep 2015	Rolling 12 Oct 2015–Sep 2016	Full year 2015
Items affecting comparability						
Acquisitions, integration and factory restructurings	–8	–10	–14	–33	–28	–47
Remeasurements of contingent considerations	–	28	–17	30	–14	33
Remeasurements of assets held for sale	–	–	–3	–	–8	–5
Items affecting comparability[1]	**–8**	**18**	**–34**	**–3**	**–50**	**–19**

1) Corresponding line in the condensed consolidated profit and loss account:						
Net sales	–	–	–	–4	–	–4
Cost of goods sold	–6	–	–15	–2	–35	–22
Selling expenses	–	–2	–	–13	1	–12
General and administrative expenses	–2	20	–19	16	–16	19
Total	–8	18	–34	–3	–50	–19

SEKm	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Oct 2015–Sep 2016	2015
Operating profit, adjusted						
Operating profit	216	212	466	432	705	671
Minus: Items affecting comparability	–8	18	–34	–3	–50	–19
Operating profit, adjusted	**224**	**194**	**500**	**435**	**755**	**690**
Net sales	1,448	1,459	4,168	4,052	5,790	5,674
Operating profit margin, adjusted, %	**15.5**	**13.3**	**12.0**	**10.7**	**13.0**	**12.2**
EBITDA, adjusted						
Operating profit	216	212	466	432	705	671
Minus: Depreciation	–61	–58	–178	–168	–237	–227
Minus: Amortization	–2	–1	–5	–3	–6	–4
EBITDA	**279**	**271**	**649**	**603**	**948**	**902**
Minus: Items affecting comparability	–8	18	–34	–3	–50	–19
EBITDA, adjusted	**287**	**253**	**683**	**606**	**998**	**921**
Capital employed						
Total assets	10,286	10,062	10,286	10,062	10,286	9,759
Minus: Deferred tax liability	680	606	680	606	680	621
Minus: Other non-current liabilities	–	43	–	43	–	43
Minus: Non-current provisions	10	11	10	11	10	10
Minus: Current provisions	7	12	7	12	7	57
Minus: Other current liabilities	1,383	1,349	1,383	1,349	1,383	1,271
Plus: Interest-bearing other current liabilities	–	–1	–	–1	–	–1
Capital employed	**8,206**	**8,040**	**8,206**	**8,040**	**8,206**	**7,756**
Capital employed comparative period previous year	8,040	7,860	8,040	7,860	8,040	8,041
Average capital employed	**8,123**	**7,950**	**8,123**	**7,950**	**8,123**	**7,899**

Reconciliation alternative performance measures, Continued

SEKm	Third quarter Jul–Sep 2016	Third quarter Jul–Sep 2015	9 months Jan–Sep 2016	9 months Jan–Sep 2015	Rolling 12 Oct 2015–Sep 2016	Full year 2015
Return on capital employed						
Operating profit (rolling 12 months)	705	694	705	694	705	671
Financial income (rolling 12 months)	18	0	18	0	18	6
Operating profit plus financial income (rolling 12 months)	**723**	**694**	**723**	**694**	**723**	**677**
Average capital employed	8,123	7,950	8,123	7,950	8,123	7,899
Return on capital employed, %	**8.9**	**8.7**	**8.9**	**8.7**	**8.9**	**8.6**
Cash conversion						
EBITDA, adjusted	287	253	683	606	998	921
Minus: Capital expenditures	42	31	112	114	159	161
EBITDA, adjusted less capital expenditures	**245**	**222**	**571**	**492**	**839**	**760**
EBITDA, adjusted	287	253	683	606	998	921
Cash conversion, %	**85.4**	**87.7**	**83.6**	**81.2**	**84.1**	**82.5**
Changes in net sales						
Net sales	1,448	1,459	4,168	4,052	5,790	5,674
Net sales comparative period previous year	1,459	1,303	4,052	3,734	5,631	5,313
Net sales, change	**–11**	**156**	**116**	**318**	**159**	**361**
Minus: Structural changes	–	86	127	133	202	208
Minus: Changes in exchange rates	–1	15	–18	73	–14	77
Organic growth	**–10**	**55**	**7**	**112**	**–29**	**76**
Structural changes, %	–	6.6	3.1	3.6	3.6	3.9
Organic growth, %	–0.7	4.2	0.2	3.0	–0.5	1.4

Condensed consolidated quarterly data

SEKm	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Profit and loss account									
Net sales	1,448	1,362	1,358	1,622	1,459	1,280	1,313	1,579	1,303
Cost of goods sold	–874	–790	–852	–991	–894	–756	–822	–983	–803
Gross profit	**574**	**572**	**506**	**631**	**565**	**524**	**491**	**596**	**500**
Other income	–	–	–	–	0	0	0	1	3
Selling expenses	–227	–255	–226	–237	–228	–239	–245	–237	–195
General and administrative expenses	–131	–175	–172	–155	–125	–155	–156	–98	–130
Operating profit (EBIT)	**216**	**142**	**108**	**239**	**212**	**130**	**90**	**262**	**178**
Exchange gains/losses on borrowings and cash and cash equivalents in foreign currencies	8	2	–8	–6	–4	3	6	–14	7
Other financial income	5	5	2	6	0	0	0	0	1
Other financial expenses	–84	–39	–40	–48	–39	–42	–54	–57	–60
Net financial items	**–71**	**–32**	**–46**	**–48**	**–43**	**–39**	**–48**	**–71**	**–52**
Profit before tax	**145**	**110**	**62**	**191**	**169**	**91**	**42**	**191**	**126**
Income tax expense	–37	–33	–18	–34	–39	–25	–9	–33	–39
Profit for the period	**108**	**77**	**44**	**157**	**130**	**66**	**33**	**158**	**87**
Profit/loss for the period attributable to:									
Owners of the Parent Company	108	77	44	157	130	66	33	158	87
KEY FIGURES									
Profit									
Depreciation and amortization	–63	–61	–59	–60	–59	–56	–56	–56	–49
Operating profit, adjusted	224	150	126	255	194	133	108	257	193
EBITDA, adjusted	287	211	185	315	253	189	164	313	242
EBITDA	279	203	167	299	271	186	146	318	227
Operating profit margin, adjusted, %	15.5	11.0	9.3	15.7	13.3	10.4	8.2	16.3	14.8
Operating profit margin (EBIT margin), %	14.9	10.4	8.0	14.7	14.5	10.2	6.9	16.6	13.7
Earnings per share, SEK									
Basic	0.38	0.27	0.15	0.55	0.45	0.23	0.12	0.55	0.30
Diluted[1]	0.38	0.27	0.15	0.55	0.45	0.23	0.12	0.55	0.30
Financial position									
Share price, last paid, SEK	31.10	29.00	25.80	28.00	23.90	25.10	25.30	22.60	21.60
Return on equity, % (Rolling 12 months)	8.5	9.3	9.0	8.9	8.9	8.4	7.1	6.0	7.0
Equity per share, SEK	15.8	15.2	15.2	15.1	15.0	14.3	13.9	14.0	13.3
Net debt/EBITDA, x (Rolling 12 months)[2]	2.76	2.82	2.78	3.03	3.39	3.30	3.60	3.97	4.30
Cash flow									
Cash flow from operating activities per share, SEK	0.4	0.4	0.9	1.3	0.6	0.6	0.8	1.0	0.3

1 Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver the shares to the participants in the long-term share-based incentive plan. The table on page 16 presents the movements in the contracts as of 1 January 2014.

2 The definition of net debt/EBITDA has been adjusted per Q3 to present a key figure over time which is irrespective of the applicable facility agreement. The net debt/EBITDA ratio for Q3 2016 based on the previous definition would have been 2.74x. Comparative figures have not been restated as the differences have a limited effect.

Movements in forward contracts to repurchase own shares

		Number of shares			
Transaction	Date	Contract 1	Contract 2	Contract 3	Contract 4
Opening balance	1 Jan 2014	1,037,610	–	–	–
Roll-forward	17 Jun 2014	–100,000	100,000		
New contract	17 Jun 2014		1,100,000		
Closing balance	**31 Dec 2014**	**937,610**	**1,200,000**	**–**	**–**
New contract	20 Jul 2015			430,000	
Closing balance	**31 Dec 2015**	**937,610**	**1,200,000**	**430,000**	**–**
Settlement	18 May 2016	–227,880			
Roll-forward	15 Jun 2016	–709,730			709,730
Closing balance	**30 Sep 2016**	**–**	**1,200,000**	**430,000**	**709,730**
	Price, SEK	18.50678	23.00000	26.40000	28.50000

Reconciliation of alternative performance measures by quarter

SEKm	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Items affecting comparability									
Acquisitions, integration and factory restructurings	–8	–5	–1	–14	–10	–5	–18	–22	–18
Remeasurements of contingent considerations	–	–3	–14	3	28	2	–	27	–
Remeasurements of assets held for sale	–	–	–3	–5	–	–	–	–	–
Other items affecting comparability	–	–	–	–	–	–	–	–	3
Items affecting comparability[1]	**–8**	**–8**	**–18**	**–16**	**18**	**–3**	**–18**	**5**	**–15**
1) Corresponding line in the condensed consolidated profit and loss account:									
Net sales	–	–	–	–	–	–	–4	–	–
Cost of goods sold	–6	–5	–4	–20	–	–	–2	–8	–14
Other income	–	–	–	–	–	–	–	–	3
Selling expenses	–	–	–	1	–2	–	–11	–5	–2
General and administrative expenses	–2	–3	–14	3	20	–3	–1	18	–2
Total	**–8**	**–8**	**–18**	**–16**	**18**	**–3**	**–18**	**5**	**–15**
Operating profit, adjusted									
Operating profit	216	142	108	239	212	130	90	262	178
Minus: Items affecting comparability	–8	–8	–18	–16	18	–3	–18	5	–15
Operating profit, adjusted	**224**	**150**	**126**	**255**	**194**	**133**	**108**	**257**	**193**
Net sales	1,448	1,362	1,358	1,622	1,459	1,280	1,313	1,579	1,303
Operating profit margin, adjusted, %	**15.5**	**11.0**	**9.3**	**15.7**	**13.3**	**10.4**	**8.2**	**16.3**	**14.8**
EBITDA, adjusted									
Operating profit	216	142	108	239	212	130	90	262	178
Minus: Depreciation	–61	–59	–58	–59	–58	–55	–55	–55	–48
Minus: Amortization	–2	–2	–1	–1	–1	–1	–1	–1	–1
EBITDA	**279**	**203**	**167**	**299**	**271**	**186**	**146**	**318**	**227**
Minus: Items affecting comparability	–8	–8	–18	–16	18	–3	–18	5	–15
EBITDA, adjusted	**287**	**211**	**185**	**315**	**253**	**189**	**164**	**313**	**242**
Capital employed									
Total assets	10,286	9,855	9,854	9,759	10,062	9,592	9,642	9,962	9,671
Minus: Deferred tax liability	680	647	618	621	606	508	474	483	430
Minus: Other non-current liabilities	–	–	–	43	43	88	86	147	170
Minus: Non-current provisions	10	9	9	10	11	11	14	16	17
Minus: Current provisions	7	14	37	57	12	10	51	65	12
Minus: Other current liabilities	1,383	1,438	1,420	1,271	1,349	1,218	1,228	1,210	1,182
Plus: Interest-bearing other current liabilities	–	–	–	–1	–1	–1	1	–	–
Capital employed	**8,206**	**7,747**	**7,770**	**7,756**	**8,040**	**7,756**	**7,790**	**8,041**	**7,860**
Capital employed comparative period previous year	8,040	7,756	7,790	8,041	7,860	7,830	7,537	7,438	7,149
Average capital employed	**8,123**	**7,752**	**7,780**	**7,899**	**7,950**	**7,793**	**7,664**	**7,740**	**7,505**

Reconciliation alternative performance measures per quarter, Continued

SEKm	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Return on capital employed									
Operating profit (rolling 12 months)	705	701	689	671	694	660	615	577	490
Financial income (rolling 12 months)	18	13	8	6	0	1	3	4	6
Operating profit plus financial income (rolling 12 months)	**723**	**714**	**697**	**677**	**694**	**661**	**618**	**581**	**496**
Average capital employed	8,123	7,752	7,780	7,899	7,950	7,793	7,664	7,740	7,505
Return on capital employed, %	**8.9**	**9.2**	**9.0**	**8.6**	**8.7**	**8.5**	**8.1**	**7.5**	**6.6**
Cash conversion									
EBITDA, adjusted	287	211	185	315	253	189	164	313	242
Minus: Capital expenditures	42	32	38	47	31	28	55	62	44
EBITDA, adjusted less capital expenditures	**245**	**179**	**147**	**268**	**222**	**161**	**109**	**251**	**198**
EBITDA, adjusted	287	211	185	315	253	189	164	313	242
Cash conversion, %	**85.4**	**84.8**	**79.5**	**85.1**	**87.7**	**85.2**	**66.5**	**80.2**	**81.8**
Changes in net sales									
Net sales	1,448	1,362	1,358	1,622	1,459	1,280	1,313	1,579	1,303
Net sales comparative period previous year	1,459	1,280	1,313	1,579	1,303	1,238	1,193	1,441	1,194
Net sales, change	**–11**	**82**	**45**	**43**	**156**	**42**	**120**	**138**	**109**
Minus: Structural changes	–	63	64	75	86	15	32	69	69
Minus: Changes in exchange rates	–1	–7	–10	4	15	17	40	45	47
Organic growth	**–10**	**26**	**–9**	**–36**	**55**	**10**	**48**	**24**	**–7**
Structural changes, %	–	4.9	4.9	4.7	6.6	1.2	2.7	4.8	5.8
Organic growth, %	–0.7	2.0	–0.7	–2.3	4.2	0.8	4.0	1.7	–0.6

Parent Company

Condensed parent company profit and loss account

	Third quarter		9 months		Rolling 12	Full year
SEKm	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Oct 2015–Sep 2016	2015
Net sales	26	23	73	65	96	88
Gross profit	**26**	**23**	**73**	**65**	**96**	**88**
Administrative expenses	–28	–30	–90	–87	–116	–113
Operating loss	**–2**	**–7**	**–17**	**–22**	**–20**	**–25**
Net financial items	–39	–7	–54	–25	–2	27
Profit or loss before tax	**–41**	**–14**	**–71**	**–47**	**–22**	**2**
Income tax	10	3	16	10	6	0
Profit or loss for the period	**–31**	**–11**	**–55**	**–37**	**–16**	**2**

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

Condensed parent company balance sheet

SEKm	30 Sep 2016	30 Sep 2015	31 Dec 2015
ASSETS			
Non-current assets	5,344	5,314	5,307
Current assets	26	37	90
TOTAL ASSETS	5,370	5,351	5,397
EQUITY AND LIABILITIES			
Equity	4,026	4,175	4,218
Non-current liabilities			
Borrowings	1,131	1,121	1,122
Derivative financial instruments	–	6	3
Provisions	1	1	1
Total non-current liabilities	1,132	1,128	1,126
Current liabilities			
Derivative financial instruments	8	13	14
Current liabilities	204	35	39
Total current liabilities	212	48	53
TOTAL EQUITY AND LIABILITIES	5,370	5,351	5,397

Condensed parent company statement of changes in equity

	9 months		Full year
SEKm	Jan–Sep 2016	Jan–Sep 2015	2015
Equity at beginning of period	4,218	4,205	4,205
Profit or loss for the period	–55	–37	2
Total comprehensive income	–55	–37	2
Transactions with owners			
Share-based payments	7	7	11
Dividend	–144	–	–
Total transactions with owners	–137	7	11
Equity at end of period	4,026	4,175	4,218

Accounting and valuation policies, disclosures and risk factors

Accounting and valuation policies

Compliance with legislation and accounting standards

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) which have been endorsed by the European Commission for application in the EU. The applied standards and interpretations are those that were in force and had been endorsed by the EU at 1 January 2016. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied. The consolidated interim report is presented compliant with IAS 34, Interim Financial Reporting, and in compliance with the relevant provisions in the Swedish Annual Accounts Act and the Swedish Securities Market Act. The interim report for the Parent Company has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Securities Market Act, which are consistent with the provisions in recommendation RFR 2, Accounting for Legal Entities.

Basis of accounting

The same accounting policies and methods of computation are applied in the interim financial statements as in the most recent annual financial statements, except for amendments to standards that are effective for annual periods beginning on 1 January 2016 that have not been already applied in preparing the 2015 consolidated financial statements. Reference is made to Note 34 'Changes in accounting policies' in the annual report for 2015. Standards effective for annual periods beginning on 1 January 2016 that had not already been applied in preparing the 2015 consolidated financial statements have not had any impact on the consolidated financial statements except for the disclosures.

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 2016. Net sales in the Parent Company amounted to SEK 73m (65) and referred mainly to intra-group services. Operating profit was SEK –17m (–22). Net financial items totaled SEK –54m (–25). Profit before tax was SEK –71m (–47) and profit after tax was SEK –55m (–37). 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 2016, a total of 125,308,430 shares were traded for a combined value of SEK 3,458m, equal to around 45 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 2016 was SEK 32.90 (15 July) and the lowest was SEK 24.10 (18 February). The share price on 30 September 2016 was SEK 31.10 (last price paid).

During the period from 1 January to 30 September 2016, the Cloetta share increased by 12 per cent while the Nasdaq OMX Stockholm PI index increased by 3 per cent.

Cloetta's share capital at 30 September 2016 amounted to 1,443,096,495. The total number of shares is 288,619,299, consisting of 9,861,614 class A shares and 278,757,685 class B shares, equal to a quota value of SEK 5 per share.

Shareholders

On 30 September 2016 Cloetta AB had 14,634 shareholders. The largest shareholder was AB Malfors Promotor with a holding corresponding to 42.1 per cent of the votes and 24.3 per cent of the share capital in the company. Threadneedle (Ameriprise Financial Inc.) was the second largest shareholder with 4.4 per cent of the votes and 5.8 per cent of the share capital. The third largest shareholder was Artisan Partners Asset Management Inc. with 3.8 per cent of the votes and 5.0 per cent of the share capital.

Institutional investors held 91.7 per cent of the votes and 89.2 per cent of the share capital. Foreign shareholders held 39.4 per cent of the votes and 51.5 per cent of the share capital.

Guidelines on Alternative Performance Measures

On 8 December 2015 the Swedish Financial Supervisory Authority (FSA) ("Finansinspektionen") announced its intention to follow the ESMA (European Securities and Markets Authority) guidelines on Alternative Performance Measures (APMs). These guidelines are applicable for (interim) financial statements published after 3 July 2016. In accordance with these guidelines additional information on the use of APMs, including explanations of use and reconciliation of the APMs to the most directly reconcilable measures in the financial statements, has been included in these interim financial statements.

APMs presented in these interim financial statements should not be considered a substitute for measures of performance in accordance with IFRS and may not be comparable to similarly titled measures by other companies.

Taxes

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

Fair value measurement

The only items recognized at fair value after initial recognition are the interest rate swaps and forward foreign currency contracts categorized at level 2 of the fair value hierarchy in all periods presented, the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB (currently known as Cloetta Nutisal AB) and the contingent consideration arising from the option agreement for Aran Candy Ltd. categorized initially at level 3, as well as assets held for sale, in cases where the fair value less cost of disposal is below the carrying amount. On 4 July 2016 the contingent consideration arising from the option agreement for Aran Candy Ltd. was settled. On 4 October 2016 the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB was settled for an amount of SEK 48m, resulting in a transfer from fair value hierarchy level 3 to 2 as per 30 September 2016. The fair values of financial assets (loans and receivables) and liabilities measured at amortized cost are approximately equal to their carrying amounts. The fair value of financial assets and liabilities for measurement purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value measurements by level according to the fair value measurement hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that were measured at fair value at 30 September 2016

SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
- Assets measured at fair value	–	–	9	9
- Forward foreign currency contracts	–	3	–	3
Total assets	**–**	**3**	**9**	**12**
Liabilities				
Liabilities at fair value through profit or loss				
- Interest rate swaps	–	12	–	12
- Contingent consideration	–	48	–	48
Total liabilities	**–**	**60**	**–**	**60**

The assets measured at fair value less cost of disposal at 30 September 2016 consisted of the land and building in Zola Predosa, Italy. The assets measured at fair value are reflected in the 'assets held for sale' and 'derivative financial instruments'. The liabilities measured at fair value are reflected in the 'derivative financial instruments' and 'other current liabilities'.

The following table presents the Group's assets and liabilities that were measured at fair value as per 31 December 2015

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

The assets measured at fair value less cost of disposal at 31 December 2015 consisted of the land and building in Zola Predosa, Italy. The assets measured at fair value are reflected in the 'assets held for sale' and 'derivative financial instruments'.

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

The following table presents the Group's assets and liabilities that were measured at fair value as per 30 September 2015

SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
- Assets measured at fair value	–	–	16	16
- Forward foreign currency contracts	–	1	–	1
Total assets	**–**	**1**	**16**	**17**
Liabilities				
Liabilities at fair value through profit or loss				
- Interest rate swaps	–	25	–	25
- Contingent consideration	–	–	128	128
- Forward foreign currency contracts	–	1	–	1
Total liabilities	–	26	128	154

The assets measured at fair value less cost of disposal at 30 September 2015 consisted of the land and building in Zola Predosa, Italy. The assets measured at fair value are reflected in the 'assets held for sale' and 'derivative financial instruments'.

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

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

SEKm	Jan–Sep 2016	Jan–Sep 2015	Full year 2015
Opening balance	**125**	**147**	**147**
Remeasurements recognized in profit or loss			
- Unrealized remeasurements on contingent consideration recognized in general and administrative expenses	17	–30	–33
- Unrealized interest on contingent consideration recognized in other financial expenses	10	10	12
Remeasurements recognized in other comprehensive income			
- Unrealized currency translation differences	2	1	1–
Settlements			
- Settlement via balance sheet	–106	–	–
Transfers			
- Transfer to fair value hierarchy level 2	–48	–	–
Closing balance	**–**	**128**	**125**

On 4 October 2016 the contingent earn-out consideration related to the acquisition of Alrifai Nutisal AB was settled for an amount of SEK 48m, resulting in a transfer from fair value hierarchy level 3 to 2 as per 30 September 2016.

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

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign currency contracts is calculated using the difference between the exchange rate on the spot date with the contractually agreed upon exchange rates.
- The fair value of the assets held for sale is based on valuations by external independent valuators.
- Other techniques, such as discounted cash flow analysis, are used to determine the fair value of the remaining financial instruments.

The fixed assets measured at fair value are identified as a non-recurring fair value measurement and are related to the assets held for sale. The assets are valued at fair value in case the fair value less cost of disposal is below the carrying amount. The contingent earn-out liabilities were 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 were aligned with the earn-out contracts.

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

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

For detailed information about the accounting policies, see Cloetta's annual report for 2015 at www.cloetta.com.

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 2015 and consist of industry and market related risks, operational risks and financial risks. Compared to the Annual Report of 2015, which was issued on 10 March 2016, profitability in the Italian business has not improved compared to 2015 although there has been a stabilization of the market in Italy during the year, and some increase in sales during the last quarter.

Definitions

General	All amounts in the tables are presented in SEK millions unless otherwise stated. All amounts in brackets () represent comparative figures for the same period of the prior year, unless otherwise stated.	
Margins	**Definition/calculation**	**Purpose**
Gross margin	Net sales less cost of goods sold as a percentage of net sales.	Gross margin measures production profitability.
Operating profit margin (EBIT margin)	Operating profit expressed as a percentage of net sales.	Operating profit margin is used for measuring the operational profitability.
Operating profit margin, adjusted	Operating profit, adjusted for items affecting comparability, as a percentage of net sales.	Operating profit margin, adjusted excludes the impact of items affecting comparability, enabling a comparison of operational profitability.
Profit margin	Profit/loss before tax expressed as a percentage of net sales.	This measure enables the profitability to be compared across locations where corporate taxes differ.
Return	**Definition/calculation**	**Purpose**
Cash conversion	Operating profit, adjusted for items affecting comparability, before depreciation and amortization less capital expenditures as a percentage of operating profit, adjusted for items affecting comparability, before depreciation and amortization.	Cash conversion measures the proportion of profits that are converted to cash flow. Its use is to analyze how much of the profit attributable to shareholders is turned into cash that could be paid to investors without damaging the business, except for cash flows related to interest and tax.
Return on capital employed	Operating profit plus financial income as a percentage of average capital employed. The average capital employed is calculated by taking the capital employed per period end and the capital employed by period end of the comparative period in the previous year divided by two.	Return on capital employed is used to analyse profitability, based on the amount of capital used. The leverage of the company is the reason that this metric is used next to return on equity, because it not only includes equity, but takes into account borrowings and other liabilities as well.
Return on equity	Profit for the period as a percentage of total equity.	Return on equity is used to measure profit generation, given the resources attributable to the owners of the Parent Company.
Capital structure	**Definition/calculation**	**Purpose**
Capital employed	Total assets less interest-free liabilities (including deferred tax).	Capital employed measures the amount of capital used and serves as input for return on capital employed.
Equity/assets ratio	Equity at the end of the period as a percentage of total assets. The equity/assets ratio represents the amount of assets on which shareholders have a residual claim.	This ratio is an indicator of the company's leverage used to finance the firm.
Gross debt	Gross current and non-current borrowings, credit overdraft facilities, derivative financial instruments and interest payables.	Gross debt represents the total debt obligation of the company irrespective its maturity.
Net debt	Gross debt less cash and cash equivalents.	Net debt is used as an indication of the ability to pay off all debts if these were to fall due simultaneously on the day of calculation, using only available cash and cash equivalents.
Net debt/EBITDA	Net debt at the end of the period divided by the EBITDA, adjusted, for the last 12 months, taking into consideration the annualization of EBITDA for acquired or divested companies.	The net debt/EBITDA ratio approximates the company's ability to decrease its debt. It represents the number of years it would take to pay back debt if net debt and EBITDA are held constant, ignoring the impact from cash flows from interest, tax and capital expenditure.
Net debt/equity ratio	Net debt at the end of the period divided by equity at the end of the period.	The net debt/equity ratio measures the extent to which the company is funded by debt. Because cash and overdraft facilities can be used to pay off debt at short notice, this is calculated based on net debt rather than gross debt.
Working capital	Total inventories and trade and other receivables adjusted for trade and other payables.	Working capital is used to measure the company's ability, besides cash and cash equivalents, to meet current operational obligations.

Data per share	Definition/calculation	Purpose
Cash flow from operating activities per share	Cash flow from operating activities in the period divided by the average number of shares.	The cash flow from operating activities per share measures the amount of cash the company generates per share from the revenues it brings in irrespective the capital investments and cash flows related to the financing structure of the company.
Earnings per share	Profit for the period divided by the average number of shares adjusted for the effect of forward contracts to repurchase own shares.	The earnings per share measures the amount of net profit that is available for payment to its shareholders per share.
Equity per share	Equity at the end of the period divided by number of shares at the end of the period.	Equity per share measures the net-asset value backing up each share of the company's equity and determines if a company is increasing shareholder value over time.

Other definitions	Definition/calculation	Purpose
EBIT	Operating profit consists of comprehensive income before net financial items and income tax.	This measure enables the profitability to be compared across locations where corporate taxes differ and irrespective the financing structure of the company.
EBITDA	Operating profit before depreciation and amortization.	EBITDA is used to measure the cash flow generated from operating activities, eliminating the impact of financing and accounting decisions.
EBITDA, adjusted	Operating profit, adjusted for items affecting comparability, before depreciation and amortization.	EBITDA, adjusted increases the comparability of EBITDA.
Effective tax rate	Income tax as a percentage of profit before tax.	This measure enables comparison of income tax across locations where corporate taxes differ.
Items affecting comparability	Items affecting comparability are items such as restructurings and impact from acquisitions.	Items affecting comparability increases the comparability within the profit and loss account.
Net financial items	The total of exchange differences on borrowings and cash and cash equivalents in foreign currencies, other financial income and other financial expenses.	The net financial items reflects the company's total costs of the external financing.
Net sales, change	Net sales as a percentage of net sales in the comparative period of the previous year.	Net sales, change reflects the company's realized top-line growth over time.
Operating profit, adjusted	Operating profit adjusted for items affecting comparability.	Operating profit, adjusted increases the comparability of operating profit.
Organic growth	Net sales, change excluding acquisition-driven growth and changes in exchanges rates.	Organic growth excludes the impact of changes in group structure and exchange rates, enabling a comparison on net sales growth over time.
Structural changes	Net sales, change resulting from changes in group structure.	Structural changes measure the contribution of changes in group structure to net sales growth.

Glossary

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

Exchange rates

	30 Sep 2016	30 Sep 2015	31 Dec 2015
EUR, average	9.3708	9.3625	9.3445
EUR, end of period	9.6135	9.3941	9.1679
NOK, average	1.0004	1.0608	1.0432
NOK, end of period	1.0686	0.9903	0.9563
GBP, average	11.6608	12.8795	12.8736
GBP, end of period	11.1422	12.7188	12.4835
DKK, average	1.2584	1.2554	1.2529
DKK, end of period	1.2902	1.2594	1.2287

Financial calendar

2016		2017											
NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

- Year-end report Q4 – 1 Feb 2017
- Annual Report – March
- AGM in Stockholm – 4 April 2017
- Interim report Q1 – 21 April 2017
- Interim report Q2 – 14 July 2017
- Interim report Q3 – 25 October 2017

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This information is information that Cloetta AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 8:00 a.m. CET on 27 October 2016.

Vision

To be the most admired satisfier of Munchy Moments
The vision, together with the goals and strategies, expresses Cloetta's business concept.

Business model

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

Strategies

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

Long-term financial targets

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

Value drivers

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

About Cloetta

Cloetta, founded in 1862, is a leading confectionery company in the Nordic region, the Netherlands and Italy. In total, Cloetta products are sold in more than 50 countries worldwide. Cloetta owns some of the strongest brands on the market, such as Läkerol, Cloetta, Jenkki, Kexchoklad, Malaco, Sportlife, Saila, Red Band and Sperlari. Cloetta has 13 production units in six countries. Cloetta's class B shares are traded on Nasdaq Stockholm.

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