Interim report Q4, October – December 2018

Stockholm, 25 January 2019

- **Net sales for the quarter** increased by 0.2 per cent to SEK 1,646m (1,643) including a positive impact from foreign exchange rates of 3.4 per cent. Organic growth amounted to –3.2 per cent.
- **Operating profit** amounted to SEK 159m (171). Profit for the period amounted to SEK 159m (20). Operating profit, adjusted for items affecting comparability, amounted to SEK 174m (206).
- **Cash flow** from operating activities amounted to SEK 288m (305).
- **Net debt/EBITDA ratio** was 2.31x (2.39).
- **The Board proposes** an ordinary dividend of SEK 1.00 (0.75) per share.

Key ratios

	Fourth quarter			Full year		
SEKm	Oct–Dec 2018	Oct–Dec 2017	Change, %	2018	2017	Change, %
Net sales	1,646	1,643	0.2[1]	6,218	5,784	7.5[1]
Operating profit, adjusted	174	206	–15.5	677	604	12.1
Operating profit margin, adjusted, %	10.6	12.5	–1.9-pts	10.9	10.4	0.5-pts
Operating profit (EBIT)	159	171	–7.0	660	527	25.2
Operating profit margin (EBIT margin), %	9.7	10.4	–0.7-pts	10.6	9.1	1.5-pts
Profit before tax	143	144	–0.7	562	443	26.9
Profit/loss for the period	159	20	695.0	483	–97	n/a
Profit for the period excluding impact of impairment loss discontinued operation including income tax effects and other items affecting comparability	159	122	30.3	483	402	20.1
Profit for the period from continuing operations	159	20	695.0	483	237	103.8
Earnings per share, basic, SEK	0.55	0.07	685.7	1.69	–0.34	n/a
Earnings per share, diluted, SEK	0.55	0.07	685.7	1.68	–0.34	n/a
Net debt/EBITDA, x (Rolling 12 months)	2.31	2.39	–3.3	2.31	2.39	–3.3
Cash flow from operating activities	288	305	–5.6	628	712	–11.8

1) Organic growth at constant exchange rates and comparable units was –3.2 per cent for the quarter and –2.8 per cent for the full year. See further under Net sales on page 4.

Cloetta

– a leading confectionery company in the Nordic region and the Netherlands

FOUNDED IN **1862**

2,458 EMPLOYEES

SALES IN **>50** COUNTRIES

LEADING BRANDS

8

ANNUAL SALES SEK **6.2** BILLION

CHOCOLATE

CANDY

PASTILLES

CHEWING GUM

PICK & MIX

NUTS

VISION
To be the most admired satisfier of Munchy Moments

MISSION
To bring a smile to your Munchy Moments

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

Munchy Moments

Message from the CEO

Continued growth within branded packaged products

This quarter became the fourth consecutive quarter showing growth within branded packaged products. EBIT declined driven by higher marketing investments and higher production costs.

Confectionery market during the quarter

The packaged confectionery market grew in Sweden, Finland, Denmark and the Netherlands. In Norway, volumes decreased due to increased sugar tax. No complete market statistics are available for pick & mix, but according to our own estimates, the pick & mix markets grew somewhat in all markets during the quarter, except for Norway where volumes decreased.

Sales development

Cloetta's sales for the quarter increased by 0.2 per cent, of which organic growth accounted for –3.2 per cent and exchange rate differences for 3.4 per cent.

Branded packaged products

Sales of branded packaged products grew by 1.4 per cent driven by Sweden, Denmark, Finland, The Netherlands and Germany. Sales declined in Norway, the UK and in International Markets. Cloetta gained market shares in 9 out of 16 categories in our core markets. During the quarter, marketing investments increased to support brand and campaign activities. Once again, this demonstrates that our focus on improved and sharper marketing activities is paying off.

Pick & mix

Pick & mix sales declined by 13.5 per cent, mainly due to the previously announced lost contract in Sweden and extremely weak sales in Norway. In December, sales of pick & mix in Norway declined by more than 50 per cent. The decline in Norway in December is due to de-stocking in trade ahead of the decrease in sugar tax in 2019. Most of the lost sales in December are expected to return in the first quarter of 2019.

Operating profit

Cloetta's operating profit (EBIT), adjusted for items affecting comparability, amounted to SEK 174m (206) and the operating profit margin, adjusted for items affecting comparability, was 10.6 per cent (12.5). Operating profit amounted to SEK 159m (171).

The decline in operating profit is driven by higher marketing investments, significantly lower sales in Norway and, as communicated in the third quarter report, higher production costs due to additional shifts. The extra shifts are temporary and needed in order to be able to handle a higher utilization in the production of moulded products due to growth in branded packaged products and Candyking insourcing.

Stable cash flow and net debt/EBITDA

Cash flow from operating activities amounted to SEK 288m (305). The net debt/EBITDA ratio was 2.31 (2.39).

Candyking integration and pick & mix

Candyking synergy savings during 2018 were in line with expectations. This means that still more than half of the total synergies of SEK 100m remains to be realized during 2019 and 2020, as planned.

Operationally, integration of Candyking will be fully implemented during the summer of 2019 when the last Candyking market has implemented Cloetta's business enterprise system. Insourcing of Candyking volumes are progressing according to plan and necessary investments to further increase insourcing will be fully implemented during 2020. Once the investments are in place, we will be able to realize the full Candyking synergy savings towards the end of 2020.

Over time, pick & mix should become a growth driver for Cloetta. In the short-term, the priority is to improve the EBIT margin, especially in Sweden. This might mean increased prices in certain contracts, and that we might sometimes need to exit unprofitable contracts. This is a key priority for 2019.

Focus on profitable growth, cost efficiency and investments

For 2019, my focus continues to be on profitable growth, but also on cost efficiency and investments. We continue to focus on strengthening our brands through more and efficient marketing support and innovation to be able to continue to grow branded packaged products. The negative sales development within pick & mix needs to be turned around and the EBIT margins within this area needs to improve. We will increase investments in the factories substantially in order to be able to handle both Candyking insourcing and the growth within branded packaged products. Finally, we will continue to cut cost in order to be able to both invest and improve profitability.

I am also happy to say that for the third year in a row we have achieved the target of 2.5 x net debt/EBITDA. In combination with improved profitability and a good cash flow, this enables the Board to propose an increased ordinary dividend of SEK 1.00 (0.75) per share. This demonstrates that Cloetta stands strong.

Henri de Sauvage-Nolting
President and CEO

Henri de Sauvage-Nolting
President and CEO

Financial overview

Fourth quarter development

Net sales

Cloetta's sales for the quarter increased by SEK 3m to SEK 1,646m (1,643) compared to the same period last year. Organic growth was –3.2 per cent and exchange rate differences 3.4 per cent. Sales of branded packaged products grew by 1.4 per cent driven by Sweden, Denmark, Finland, The Netherlands and Germany. Sales declined in Norway, the UK and in International Markets. Pick & mix sales declined by 13.5 per cent, mainly due to the previously announced lost contract in Sweden and an extremely weak development in Norway due to the increased sugar tax in 2018 and de-stocking in trade ahead of the decrease in sugar tax in 2019.

Changes in net sales, %	Oct–Dec 2018	2018
Organic growth	–3.2	–2.8
Structural changes	–	6.5
Changes in exchange rates	3.4	3.8
Total	**0.2**	**7.5**

Gross profit

Gross profit amounted to SEK 606m (606), which is equal to a gross margin of 36.8 per cent (36.9). The higher production costs and significantly lower sales in Norway is offset by a positive retranslation effect from foreign exchange rates.

Operating profit

Operating profit amounted to SEK 159m (171). Operating profit, adjusted for items affecting comparability, amounted to SEK 174m (206). The decline in operating profit is driven by higher marketing investments, significantly lower sales in Norway and higher production costs due to additional shifts.

Items affecting comparability

Operating profit for the fourth quarter includes items affecting comparability of SEK –15 (–35) related to restructuring of the sales force in Norway, Candyking integration and some restructuring in Sweden.

Net financial items

Net financial items for the quarter amounted to SEK –16m (–27). Interest expenses related to external borrowings were SEK –7m (–7), exchange differences on borrowings and cash and cash equivalents were SEK 4m (–7) which mainly related to the development of the Swedish krona against the euro during the quarter. Other financial items amounted to SEK –13m (–13). Of the total net financial items SEK 1m (–30) is non-cash in nature.

Profit for the period

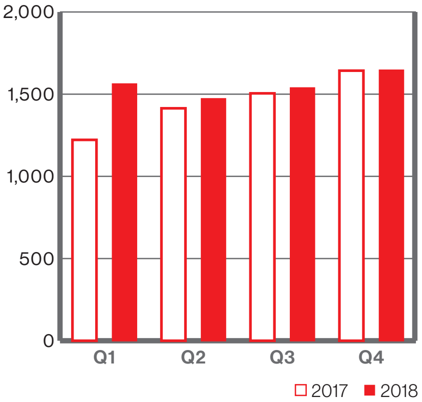
Profit from continuing operations was SEK 159m (20). During the quarter the deferred taxes have been remeasured based on lower enacted tax rates as from 2019, resulting in a negative effective tax rate. Income tax for the period was SEK 16m (–124). The effective tax rate from continuing operations for the quarter was –11.2 per cent (86.1). The reason for the higher effective tax rate in 2017 was the recognition of a valuation allowance on deferred tax assets in Slovakia. Profit for the period was SEK 159m (20), which equates to basic and diluted earnings per share of SEK 0.55 (0.07).

Cash flow from operating and investing activities

Cash flow from operating activities before changes in working capital was SEK 211m (200). The increase compared to prior year is mainly the result of lower utilizations of provisions. The cash flow from changes in working capital was SEK 77m (105). Cash flow from operating and investing activities was SEK 240m (328).

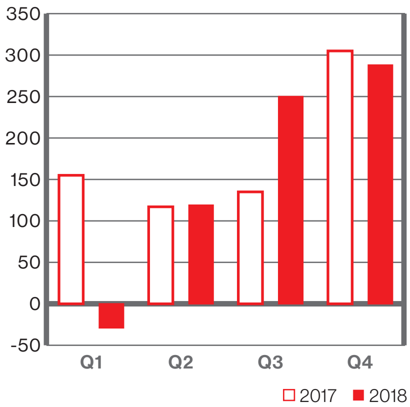
Net sales

SEKm



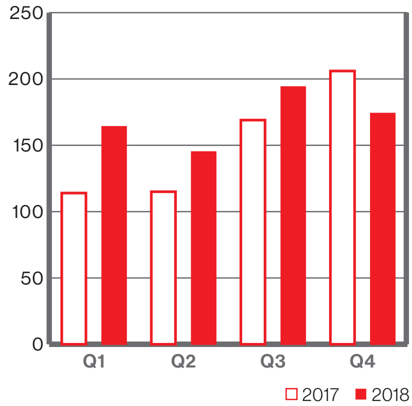
Cash flow from operating activities

SEKm



Operating profit, adjusted

SEKm



Cash flow from changes in working capital
Cash flow from changes in working capital was SEK 77m (105). The cash flow from changes in working capital was positively impacted by the decrease in receivables amounting to SEK 171m (48), a decrease in inventories of SEK 24m (–24), partly offset by a decrease in payables for an amount of SEK –118m (81).

Cash flow from investing activities
Cash flow from investing activities was SEK –48m (23), of which SEK –48m (–46) is attributable to investments in property, plant and equipment and intangible assets. In the fourth quarter of 2017 an amount of SEK 64m was related to the final proceeds of the divestment of Cloetta Italia s.r.l. Other cash flow from investing activities amounted to SEK 0m (5).

Cash flow from financing activities
Cash flow from financing activities was SEK 0m (–8). The cash flow from financing activities was related to the settlement and roll-forward of commercial papers of SEK 300m (–) which had a net effect of zero in the quarter. The other cash flow from financing activities amounted to SEK 0m (–8).

Development during the year

Net sales
Net sales for the year increased by SEK 434m to SEK 6,218m (5,784) compared to the same period last year. Organic growth was –2.8 per cent, structural growth 6.5 per cent and exchange rate differences 3.8 per cent. Sales of branded packaged products grew by 1.5 per cent. Pick & mix sales declined by 12.8 per cent. Sales of branded packaged products grew in Sweden, Finland, Denmark, The Netherlands and Germany, but declined in Norway, the UK and in International Markets. Sales of pick & mix grew in Denmark and the UK, but declined on other markets.

Gross profit
Gross profit amounted to SEK 2,284m (2,106), which is equal to a gross margin of 36.7 per cent (36.4). The improvement in gross profit is due to higher production volumes, growth in branded packaged products and a positive retranslation effect from foreign exchange rates, partly offset by higher production costs. In additon, the improvement in gross profit is also driven by structural growth from Candyking (January–April).

Operating profit
Operating profit amounted to SEK 660m (527). Operating profit, adjusted for items affecting comparability, amounted to SEK 677m (604). The increase in operating profit is due to growth in branded packaged products, good cost control and higher production volumes, partly offset by higher production costs.

Items affecting comparability
Operating profit for the year includes items affecting comparability of SEK –17m (–77) which mainly includes a negative impact related to the integration of Candyking and a positive impact of remeasurement of the contingent earn-out consideration for Candyking.

Net financial items
Net financial items for the year amounted to SEK –98m (–84). Interest expenses related to external borrowings were SEK –31m (–33), exchange differences on borrowings and cash and cash equivalents were SEK –16m (–17) which mainly related to the development of the Swedish krona against the euro during the year. Other financial items amounted to SEK –51m (–34) of which SEK –7m relates to the full amortization of the capitalized transaction costs due to the amendment and extension of the facility agreement and the launch of commercial papers. Of the total net financial items SEK –63m (–47) is non-cash in nature.

Profit for the period
Profit from continuing operations was SEK 483m (237). Income tax for the period was SEK –79m (–206). The effective tax rate from continuing operations for the year is 14.1 per cent (46.5). The reason for the higher effective tax rate in 2017 was the recognition of a valuation allowance on deferred tax asset in Slovakia. The effective tax rate for the year is low, mainly due to changes in enacted tax rates in several countries resulting in a remeasurement of deferred taxes based on lower enacted tax rates as from 2019. Profit for the year was SEK 483m (–97), which equates to basic earnings per share of SEK 1.69 (–0.34) and diluted earnings per share of SEK 1.68 (–0.34).

Cash flow from operating and investing activities
Cash flow from operating activities before changes in working capital was SEK 792m (532). The increase compared to prior year is mainly the result of the higher operating result and lower utilizations of provisions. The cash flow from changes in working capital was SEK –164 m (180). Cash flow from operating and investing activities was SEK 444m (690).

Cash flow from changes in working capital
Cash flow from changes in working capital was SEK –164m (180). The cash flow from changes in working capital was negatively impacted by the decrease in payables amounting to SEK –213m (140), an increase in inventories of SEK –1m (–40) partly offset by the decrease in receivables of SEK 50m (80).

Cash flow from investing activities
Cash flow from investing activities was SEK –184m (–22), of which SEK –184m (–157) is attributable to investments in property, plant and equipment and intangible assets. The acquisition of Candyking Holding AB and its subsidiaries was included for a net amount of SEK –249m and SEK 378m was related to the divestment of Cloetta Italia s.r.l. in 2017. Other cash flows from investing activities amounted to SEK 0m (6).

Cash flow from financing activities
Cash flow from financing activities was SEK –665m (–238). The cash flow from financing activities was related to the dividend distribution of SEK –433m (–216), the repayments related to the amendment and restatement of the facilities agreement of SEK –719m (0) which are partly offset by the proceeds coming from the launch and roll-forward of commercial papers of SEK 500m (0). The other cash flow from financing activities amounted to SEK –13m (–22).

Financial position
Consolidated equity at 31 December 2018 amounted to SEK 3,968m (3,818), which equates to SEK 13.7 (13.2) per share. Net debt at 31 December 2018 was SEK 2,091m (2,035). As a consequence of Cloetta entering into an amendment and restatement regarding its term and revolving facilities agreement and the launch of a commercial paper program the net-debt composition changed in the second quarter.

Long-term borrowings totalled SEK 2,076m (1,715) and consisted of SEK 2,078m (1,719) in gross non-current loans from credit institutions and SEK –2m (–4) in capitalized transaction costs.

Total short-term borrowings amounted to SEK 500m (999) and consisted of SEK 500m (0) of commercial papers, SEK 0m (1,000) in gross current loans from credit institutions, SEK –1m (–3) in capitalized transaction costs and accrued interest on borrowings from credit institutions and commercial papers for an amount of SEK 1m (2).

SEKm	31 Dec 2018	31 Dec 2017
Gross non-current loans from credit institutions	2,078	1,719
Gross current loans from credit institutions	–	1,000
Commercial papers	500	–
Derivative financial instruments (current and non-current)	63	73
Interest payable	1	2
Gross debt	**2,642**	**2,794**
Cash and cash equivalents	–551	–759
Net debt	**2,091**	**2,035**

Cash and cash equivalents at 31 December 2018, excluding unutilized overdraft facilities, amounted to SEK 551m (759). At 31 December 2018 Cloetta had unutilized credit facilities of SEK 1,227m (1,179).

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 in connection with the holiday season.

Employees

The average number of employees during the quarter was 2,452 (2,465). The decrease is attributable to the impact of the Candyking integration.

Earn-out Candyking acquisition

When Cloetta acquired Candyking in 2017, the initial purchase price amounted to SEK 325m (cash and debt free) with a potential additional purchase price of maximum SEK 225m based on the result of Cloetta's and Candyking's combined sales volume of pick and mix in confectionary and natural snacks during 2018. When summarizing the combined sales volume for 2018, the expected undiscounted earn-out amounts to SEK 145m (discounted 142m). The earn-out is expected to be paid to the holders of the earn-out instrument in April, 2019 at the latest.

The Board's proposed dividend

For the financial year 2018 the Board proposes an ordinary dividend of SEK 1.00 per share (0.75), corresponding to around 60 per cent of profit for the year. In 2017, the ordinary dividend was 54 per cent of profit for the year excluding the impact of the impairment loss discontinued operation including income tax effects and other items affecting comparability. Proposed date for the record is the 8 April 2019 and payment is expected to be made on 11 April 2019.

The ambition is to continue using future cash flows for payment of share dividends, while at the same time providing financial flexibility for complementary acquisitions. The long-term target to distribute 40–60 per cent of profit after tax continues to apply.

Annual General Meeting

The Annual General Meeting of Cloetta AB will be held on Thursday 4 April 2019, 3.00 p.m. at Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4, in Stockholm. Notice of the AGM will be published in February 2019 and will also be available at www.cloetta.com.

Events after the balance sheet date

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

Examples of new launches during the fourth quarter

The Netherlands
Venco Wintermix
Red Band Fruity Pyramids
Lonka Christmas range

Sweden
Juleskum Kola
Polly Vinter

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, 25 January 2019
Cloetta AB (publ)

Lilian Fossum Biner
Board Chairman

Mikael Aru
Member of the Board

Lottie Knutson
Member of the Board

Alan McLean Raleigh
Member of the Board

Mikael Norman
Member of the Board

Camilla Svenfelt
Member of the Board

Mikael Svenfelt
Member of the Board

Lena Grönedal
Employee Board member

Mikael Ström
Employee Board member

Henri de Sauvage-Nolting
President and CEO

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

Financial statements in summary

Consolidated profit and loss account

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Net sales	1,646	1,643	6,218	5,784
Cost of goods sold	–1,040	–1,037	–3,934	–3,678
Gross profit	**606**	**606**	**2,284**	**2,106**
Other income	–	2	4	6
Selling expenses	–279	–281	–1,025	–972
General and administrative expenses	–168	–156	–603	–613
Operating profit	**159**	**171**	**660**	**527**
Exchange differences on borrowings and cash and cash equivalents in foreign currencies	4	–7	–16	–17
Other financial income	1	0	5	7
Other financial expenses	–21	–20	–87	–74
Net financial items	**–16**	**–27**	**–98**	**–84**
Profit before tax	**143**	**144**	**562**	**443**
Income tax	16	–124	–79	–206
Profit from continuing operations	**159**	**20**	**483**	**237**
Profit/loss from discontinued operation, net of tax[1]	–	–	–	–334
Profit/loss for the period	**159**	**20**	**483**	**–97**
Profit/loss for the period attributable to:				
Owners of the Parent Company				
Continuing operations	159	20	483	237
Discontinued operation[1]	–	–	–	–334
Total	**159**	**20**	**483**	**–97**
Earnings per share from continuing operations, SEK				
Basic[2]	0.55	0.07	1.69	0.83
Diluted[2]	0.55	0.07	1.68	0.83
Earnings per share from discontinued operation, SEK				
Basic[2]	–	–	–	–1.17
Diluted[2]	–	–	–	–1.17
Earnings per share, SEK				
Basic[2]	0.55	0.07	1.69	–0.34
Diluted[2]	0.55	0.07	1.68	–0.34
Number of shares at end of period	288,619,299	288,619,299	288,619,299	288,619,299
Average number of shares (basic)[2]	286,627,393	286,645,530	286,492,413	286,320,464
Average number of shares (diluted)[2]	286,803,180	286,835,623	286,650,070	286,492,178

1) For the breakdown of the result from discontinued operation see page 24.
2) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver shares to the participants of its long-term share-based incentive plan. The outstanding contract at reporting date consist of one contract for 1,991,906 shares at a share price of SEK 29.3886.

Consolidated statement of comprehensive income

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Profit/loss for the period	**159**	**20**	**483**	**–97**
Other comprehensive income				
Remeasurement of defined benefit pension plans	–8	0	–41	–36
Income tax on other comprehensive income that subsequently will not be reclassified to profit or loss for the period	2	1	9	8
Items that will never be reclassified to profit or loss for the period	**–6**	**1**	**–32**	**–28**
Currency translation differences	–41	88	176	88
Currency translation differences on discontinued operation reclassified through profit or loss	–	–	–	–102
Hedge of a net investment in a foreign operation	10	–31	–58	–33
Income tax on other comprehensive income that will be reclassified subsequently to profit or loss for the period, when specific conditions are met	–2	7	12	7
Items that are or may be reclassified to profit or loss for the period	**–33**	**64**	**130**	**–40**
Total other comprehensive income	**–39**	**65**	**98**	**–68**
Total comprehensive income, net of tax	**120**	**85**	**581**	**–165**
Total comprehensive income for the period attributable to:				
Owners of the Parent Company	120	85	581	–165

Net financial items

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Exchange differences on borrowings and cash and cash equivalents in foreign currencies	**4**	**–7**	**–16**	**–17**
Other financial income, third parties	1	1	5	3
Unrealized gains on single currency interest rate swaps	–	–1	–	4
Other financial income	**1**	**0**	**5**	**7**
Interest expenses third-party borrowings and realized losses on single currency interest rate swaps	–7	–7	–31	–33
Interest expenses, contingent earn-out considerations	–6	–6	–25	–15
Amortization of capitalized transaction costs	0	–1	–8	–4
Unrealized losses on single currency interest rate swaps	–2	–	–2	–
Other financial expenses	–6	–6	–21	–22
Other financial expenses	**–21**	**–20**	**–87**	**–74**
Net financial items	**–16**	**–27**	**–98**	**–84**

Condensed consolidated balance sheet

SEKm	31 Dec 2018	31 Dec 2017
ASSETS		
Non-current assets		
Intangible assets	5,626	5,490
Property, plant and equipment	1,354	1,338
Deferred tax asset	16	20
Other financial assets	11	11
Total non-current assets	**7,007**	**6,859**
Current assets		
Inventories	765	745
Other current assets	844	889
Derivative financial instruments	1	0
Cash and cash equivalents	551	759
Total current assets	**2,161**	**2,393**
TOTAL ASSETS	**9,168**	**9,252**
EQUITY AND LIABILITIES		
Equity	**3,968**	**3,818**
Non-current liabilities		
Long-term borrowings	2,076	1,715
Deferred tax liability	754	703
Derivative financial instruments	3	2
Other non-current liabilities	–	138
Provisions for pensions and other long-term employee benefits	419	374
Provisions	9	5
Total non-current liabilities	**3,261**	**2,937**
Current liabilities		
Short-term borrowings	500	999
Derivative financial instruments	61	71
Other current liabilities	1,355	1,424
Provisions	23	3
Total current liabilities	**1,939**	**2,497**
TOTAL EQUITY AND LIABILITIES	**9,168**	**9,252**

Condensed consolidated statement of changes in equity

SEKm	Full year 2018	Full year 2017
Equity at beginning of period	**3,818**	**4,199**
Profit/loss for the period	483	–97
Other comprehensive income	98	–68
Total comprehensive income	**581**	**–165**
Transactions with owners		
New forward contract to repurchase own shares	–	–11
Share-based payments	2	11
Dividend[1]	–433	–216
Total transactions with owners	**–431**	**–216**
Equity at end of period	**3,968**	**3,818**

1) The dividend paid consisted of an ordinary dividend of SEK 0.75 (0.75) per share and a special dividend of SEK 0.75 (0) per share.

Condensed consolidated cash flow statement

	Fourth quarter		Full year	
SEKm	Oct–Dec 2018	Oct–Dec 2017	2018	2017
Cash flow from operating activities before changes in working capital	211	200	792	532
Cash flow from changes in working capital	77	105	–164	180
Cash flow from operating activities	**288**	**305**	**628**	**712**
Cash flows from investments in property, plant and equipment and intangible assets	–48	–46	–184	–157
Cash flow from other investing activities	0	69	0	135
Cash flow from investing activities	**–48**	**23**	**–184**	**–22**
Cash flow from operating and investing activities	**240**	**328**	**444**	**690**
Cash flow from financing activities	**0**	**–8**	**–665**	**–238**
Cash flow for the period	**240**	**320**	**–221**	**452**
Cash and cash equivalents at beginning of period	308	434	759	298
Cash flow for the period	240	320	–221	452
Exchange difference	3	5	13	9
Total cash and cash equivalents at end of period	**551**	**759**	**551**	**759**

Condensed consolidated key figures

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Profit				
Net sales	1,646	1,643	6,218	5,784
Net sales, change, %	0.2	20.2	7.5	13.3
Organic net sales, change, %	–3.2	0.0	–2.8	–1.2
Gross margin, %	36.8	36.9	36.7	36.4
Depreciation	–52	–56	–218	–218
Amortization	–3	–3	–12	–11
Impairment loss other non-current assets	–	–	–	–9
Operating profit, adjusted	174	206	677	604
Operating profit margin, adjusted, %	10.6	12.5	10.9	10.4
Operating profit (EBIT)	159	171	660	527
Operating profit margin (EBIT margin), %	9.7	10.4	10.6	9.1
EBITDA, adjusted	229	265	907	833
EBITDA	214	230	890	765
Profit margin, %	8.7	8.8	9.0	7.7
Financial position				
Working capital	402	232	402	232
Capital expenditure	48	45	184	157
Net debt	2,091	2,035	2,091	2,035
Capital employed	7,027	6,979	7,027	6,979
Return on capital employed, % (Rolling 12 months)	9.5	8.2	9.5	8.2
Equity/assets ratio, %	43.3	41.3	43.3	41.3
Net debt/equity ratio, %	52.7	53.3	52.7	53.3
Return on equity, % (Rolling 12 months)	12.2	6.2	12.2	6.2
Equity per share, SEK	13.7	13.2	13.7	13.2
Net debt/EBITDA, x (Rolling 12 months)	2.31	2.39	2.31	2.39
Cash flow				
Cash flow from operating activities	288	305	628	712
Cash flow from investing activities	–48	23	–184	–22
Cash flow after investments	240	328	444	690
Cash conversion, %	79.0	83.0	79.7	83.2
Cash flow from operating activities per share, SEK	1.0	1.1	2.2	2.5
Employees				
Average number of employees	2,452	2,465	2,458	2,467

Reconciliation of alternative performance measures

	Fourth quarter		Full year	
SEKm	Oct–Dec 2018	Oct–Dec 2017	2018	2017
Items affecting comparability				
Acquisitions, integration and factory restructurings	–15	–20	–38	–62
of which: impairment loss other non-current assets	–	–	–	–9
Remeasurements of contingent considerations	0	5	21	5
Other items affecting comparability	0	–20	0	–20
Items affecting comparability*	**–15**	**–35**	**–17**	**–77**
* Corresponding line in the condensed consolidated profit and loss account:				
Net sales	0	–	0	–
Cost of goods sold	6	–22	3	–39
Other operating income	–	–	4	4
Selling expenses	0	–3	–1	–6
General and administrative expenses	–21	–10	–23	–36
Total	**–15**	**–35**	**–17**	**–77**
Operating profit, adjusted				
Operating profit	159	171	660	527
Minus: Items affecting comparability	–15	–35	–17	–77
Operating profit, adjusted	**174**	**206**	**677**	**604**
Net sales	1,646	1,643	6,218	5,784
Operating profit margin, adjusted, %	**10.6**	**12.5**	**10.9**	**10.4**
EBITDA, adjusted				
Operating profit	159	171	660	527
Minus: Depreciation	–52	–56	–218	–218
Minus: Amortization	–3	–3	–12	–11
Minus: Impairment loss other non-current assets	–	–	–	–9
EBITDA	**214**	**230**	**890**	**765**
Minus: Items affecting comparability (excl. impairment loss other non-current assets)	–15	–35	–17	–68
EBITDA, adjusted	**229**	**265**	**907**	**833**
Capital employed				
Total assets	9,168	9,252	9,168	9,252
Minus: Deferred tax liability	754	703	754	703
Minus: Other non-current liabilities	–	138	–	138
Minus: Non-current provisions	9	5	9	5
Minus: Current provisions	23	3	23	3
Minus: Other current liabilities	1,355	1,424	1,355	1,424
Capital employed	**7,027**	**6,979**	**7,027**	**6,979**
Capital employed in comparative period of previous year	6,979	5,966	6,979	5,966
Average capital employed	**7,003**	**6,473**	**7,003**	**6,473**

Reconciliation alternative performance measures, continued

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Return on capital employed				
Operating profit (rolling 12 months)	660	527	660	527
Financial income (rolling 12 months)	5	7	5	7
Operating profit plus financial income (rolling 12 months)	**665**	**534**	**665**	**534**
Average capital employed	7,003	6,473	7,003	6,473
Return on capital employed, %	**9.5**	**8.2**	**9.5**	**8.2**
Cash conversion				
EBITDA, adjusted	229	265	907	833
Minus: Capital expenditures	48	45	184	140
EBITDA, adjusted less capital expenditures	**181**	**220**	**723**	**693**
EBITDA, adjusted	229	265	907	833
Cash conversion, %	**79.0**	**83.0**	**79.7**	**83.2**
Changes in net sales				
Net sales	1,646	1,643	6,218	5,784
Net sales in comparative period of previous year	1,643	1,367	5,784	5,107
Net sales, change	**3**	**276**	**434**	**677**
Minus: Structural changes	–	285	375	708
Minus: Changes in exchange rates	51	–9	217	30
Organic growth	**–48**	**0**	**–158**	**–61**
Structural changes, %	–	20.8	6.5	13.9
Organic growth, %	–3.2	0.0	–2.8	–1.2
Profit/loss for the period excluding impact of impairment loss from discontinued operation including income tax effects and other items affecting comparability				
Profit/loss for the period	159	20	483	–97
Minus: Impairment loss from discontinued operation including income tax effects	–	–82	–	–479
Minus: Other items affecting comparability	0	–20	0	–20
Profit for the period excluding impact of impairment loss from discontinued operation including income tax effects and other items affecting comparability	**159**	**122**	**483**	**402**
Average number of shares (basic)[1]	286,627,393	286,645,530	286,492,413	286,320,464
Average number of shares (diluted)[1]	286,803,180	286,835,623	286,650,070	286,492,178
Earnings per share, basic excluding impact of impairment loss from discontinued operation including tax effects and other items affecting comparability, SEK[1]	0.55	0.43	1.69	1.40
Earnings per share, diluted excluding impact of impairment loss from discontinued operation including tax effects and other items affecting comparability, SEK[1]	0.55	0.43	1.68	1.40

1) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver shares to the participants of its long-term share-based incentive plan. The outstanding contract at reporting date consist of one contract for 1,991,906 shares at a share price of SEK 29.3886.

Condensed consolidated quarterly data

SEKm	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Profit and loss account									
Net sales	1,646	1,538	1,472	1,562	1,643	1,505	1,414	1,222	1,367
Cost of goods sold	–1,040	–979	–913	–1,002	–1,037	–978	–895	–768	–806
Gross profit	**606**	**559**	**559**	**560**	**606**	**527**	**519**	**454**	**561**
Other income	–	–	4	–	2	–	4	–	–
Selling expenses	–279	–230	–268	–248	–281	–232	–259	–200	–207
General and administrative expenses	–168	–149	–140	–146	–156	–126	–174	–157	–174
Operating profit	**159**	**180**	**155**	**166**	**171**	**169**	**90**	**97**	**180**
Exchange differences borrowings and cash and cash equivalents in foreign currencies	4	5	–3	–22	–7	–7	–2	–1	–10
Other financial income	1	0	4	0	0	0	1	6	5
Other financial expenses	–21	–18	–28	–20	–20	–20	–18	–16	–20
Net financial items	**–16**	**–13**	**–27**	**–42**	**–27**	**–27**	**–19**	**–11**	**–25**
Profit before tax	**143**	**167**	**128**	**124**	**144**	**142**	**71**	**86**	**155**
Income tax	16	–35	–31	–29	–124	–34	–28	–20	–33
Profit from continuing operations	**159**	**132**	**97**	**95**	**20**	**108**	**43**	**66**	**122**
Profit/loss from discontinued operation, net of tax	–	–	–	–	–	45	–372	–7	–542
Profit/loss for the period	**159**	**132**	**97**	**95**	**20**	**153**	**–329**	**59**	**–420**
Profit/loss for the period attributable to:									
Owners of the Parent Company									
Continuing operations	159	132	97	95	20	108	43	66	122
Discontinued operation	–	–	–	–	–	45	–372	–7	–542
KEY FIGURES									
Profit									
Depreciation and amortization	–55	–58	–57	–60	–59	–74	–56	–49	–55
Operating profit, adjusted	174	194	145	164	206	169	115	114	209
EBITDA, adjusted	229	252	202	224	265	234	171	163	262
EBITDA	214	238	212	226	230	243	146	146	235
Operating profit margin, adjusted, %	10.6	12.6	9.9	10.5	12.5	11.2	8.1	9.3	15.3
Operating profit margin (EBIT margin), %	9.7	11.7	10.5	10.6	10.4	11.2	6.4	7.9	13.2
Earnings per share, SEK									
Basic[1]	0.55	0.46	0.34	0.33	0.07	0.53	–1.15	0.21	–1.47
Diluted[1]	0.55	0.46	0.34	0.33	0.07	0.53	–1.15	0.21	–1.47
Financial position									
Share price, last paid, SEK	24.30	27.48	27.18	31.82	29.70	28.00	34.70	35.40	28.70
Return on equity, % (rolling 12 months)	12.2	8.9	8.5	6.6	6.2	9.1	8.7	–4.1	–4.5
Equity per share, SEK	13.7	13.3	13.0	14.1	13.2	12.9	12.9	14.7	14.5
Net debt/EBITDA, x (rolling 12 months)	2.31	2.48	2.77	2.42	2.39	2.63	2.77	2.34	2.44
Cash flow									
Cash flow from operating activities per share, SEK	1.0	0.9	0.4	–0.1	1.1	0.5	0.4	0.5	1.4

1) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver shares to the participants of its long-term share-based incentive plan. The outstanding contract at reporting date consist of one contract for 1,991,906 shares at a share price of SEK 29.3886.

Reconciliation of alternative performance measures by quarter

SEKm	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Items affecting comparability									
Acquisitions, integration and factory restructurings	–15	–7	–13	–3	–20	0	–25	–17	–29
of which: impairment loss other non-current assets	–	–	–	–	–	–9	–	–	–2
Remeasurements of contingent considerations	0	–6	19	8	5	–	–	–	–
Other items affecting comparability	0	–1	4	–3	–20	–	–	–	–
Items affecting comparability*	**–15**	**–14**	**10**	**2**	**–35**	**0**	**–25**	**–17**	**–29**
* Corresponding line in the condensed consolidated profit and loss account:									
Net sales	0	0	–	–	–	–	–	–	–
Cost of goods sold	6	–1	–1	–1	–22	1	–15	–3	–3
Other operating income	–	–	4	–	–	–	4	–	–
Selling expenses	–	–1	–	–	–3	–	–3	–	–
General and administrative expenses	–21	–12	7	3	–10	–1	–11	–14	–26
Total	**–15**	**–14**	**10**	**2**	**–35**	**0**	**–25**	**–17**	**–29**
Operating profit, adjusted									
Operating profit	159	180	155	166	171	169	90	97	180
Minus: Items affecting comparability	–15	–14	10	2	–35	0	–25	–17	–29
Operating profit, adjusted	**174**	**194**	**145**	**164**	**206**	**169**	**115**	**114**	**209**
Net sales	1,646	1,538	1,472	1,562	1,643	1,505	1,414	1,222	1,367
Operating profit margin, adjusted, %	**10.6**	**12.6**	**9.9**	**10.5**	**12.5**	**11.2**	**8.1**	**9.3**	**15.3**
EBITDA, adjusted									
Operating profit	159	180	155	166	171	169	90	97	180
Minus: Depreciation	–52	–55	–54	–57	–56	–61	–53	–48	–53
Minus: Amortization	–3	–3	–3	–3	–3	–4	–3	–1	–
Minus: Impairment loss other non-current assets	–	–	–	–	–	–9	–	–	–2
EBITDA	**214**	**238**	**212**	**226**	**230**	**243**	**146**	**146**	**235**
Minus: Items affecting comparability (excl. impairment loss other non-current assets)	–15	–14	10	2	–35	9	–25	–17	–27
EBITDA, adjusted	**229**	**252**	**202**	**224**	**265**	**234**	**171**	**163**	**262**
Capital employed									
Total assets	9,168	9,191	9,078	9,650	9,252	8,945	9,560	9,202	9,236
Minus: Deferred tax liability	754	794	786	731	703	625	641	598	586
Minus: Other non-current liabilities	–	–	–	135	138	137	132	–	–
Minus: Non-current provisions	9	6	6	5	5	5	5	9	22
Minus: Current provisions	23	5	1	1	3	6	6	46	64
Minus: Other current liabilities	1,355	1,482	1,452	1,459	1,424	1,320	1,219	1,189	1,235
Minus: Assets held for sale	–	–	–	–	–	–	830	–	–
Capital employed	**7,027**	**6,904**	**6,833**	**7,319**	**6,979**	**6,852**	**6,727**	**7,360**	**7,329**
Capital employed in comparative period of previous year	6,979	6,852	6,727	6,002	5,966	6,273	5,818	7,770	7,756
Average capital employed	**7,003**	**6,878**	**6,780**	**6,661**	**6,473**	**6,563**	**6,273**	**7,565**	**7,543**

Reconciliation alternative performance measures per quarter, continued

SEKm	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Return on capital employed									
Operating profit (rolling 12 months)	660	672	661	596	527	536	562	620	635
Financial income (rolling 12 months)	5	4	4	1	7	12	17	21	17
Operating profit plus financial income (rolling 12 months)	**665**	**676**	**665**	**597**	**534**	**548**	**579**	**641**	**652**
Average capital employed	7,003	6,878	6,780	6,661	6,473	6,563	6,273	5,930	5,879
Return on capital employed, %	**9.5**	**9.8**	**9.8**	**9.0**	**8.2**	**8.3**	**9.2**	**10.8**	**11.1**
Cash conversion									
EBITDA, adjusted	229	252	202	224	265	234	171	163	262
Minus: Capital expenditures	48	44	51	41	45	32	32	31	47
EBITDA, adjusted less capital expenditures	**181**	**208**	**151**	**183**	**220**	**202**	**139**	**132**	**215**
EBITDA, adjusted	229	252	202	224	265	234	171	163	262
Cash conversion, %	**79.0**	**82.5**	**74.8**	**81.7**	**83.0**	**86.3**	**81.3**	**81.0**	**82.1**
Changes in net sales									
Net sales	1,646	1,538	1,472	1,562	1,643	1,505	1,414	1,222	1,367
Net sales in comparative period of previous year	1,643	1,505	1,414	1,222	1,367	1,285	1,221	1,234	n/a
Net sales, change	**3**	**33**	**58**	**340**	**276**	**220**	**193**	**–12**	**n/a**
Minus: Structural changes	–	–	76	299	285	261	161	–	n/a
Minus: Changes in exchange rates	51	87	51	28	–9	–5	38	13	n/a
Organic growth	**–48**	**–54**	**–69**	**13**	**0**	**–36**	**–6**	**–25**	**n/a**
Structural changes, %	–	–	5.4	24.5	20.8	20.3	13.2	–	n/a
Organic growth, %	–3.2	–3.6	–4.9	1.1	0.0	–2.8	–0.5	–2.0	n/a
Profit/loss for the period excluding impact of impairment loss from discontinued operation including income tax effects and other items affecting comparability									
Profit/loss for the period	159	132	97	95	20	153	–329	59	–420
Minus: Impairment loss from discontinued operation including income tax effects	–	–	–	–	–82	–32	–365	–	–594
Minus: Other items affecting comparability	0	–1	4	–3	–20	–	–	–	–
Profit for the period excluding impact of impairment loss from discontinued operation including income tax effects and other items affecting comparability	**159**	**133**	**93**	**98**	**122**	**185**	**36**	**59**	**174**
Average number of shares (basic)[1]	286,627,393	286,627,393	286,413,012	286,296,737	286,645,530	286,645,530	286,339,892	286,279,569	286,279,569
Average number of shares (diluted)[1]	286,803,180	286,765,707	286,620,265	286,562,172	286,835,623	286,875,122	286,626,106	286,607,989	286,560,336
Earnings per share, basic excluding impact of impairment loss from discontinued operation including tax effects and other items affecting comparability, SEK[1]	0.55	0.46	0.32	0.34	0.43	0.65	0.13	0.21	0.61
Earnings per share, diluted excluding impact of impairment loss from discontinued operation including tax effects and other items affecting comparability, SEK [1]	0.55	0.46	0.32	0.34	0.43	0.64	0.13	0.21	0.61

1) Cloetta entered into forward contracts to repurchase own shares to fulfill its future obligation to deliver shares to the participants of its long-term share-based incentive plan. The outstanding contract at reporting date consist of one contract for 1,991,906 shares at a share price of SEK 29.3886.

Parent Company

Condensed parent company profit and loss account

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Net sales	19	30	84	107
Gross profit	**19**	**30**	**84**	**107**
General and administrative expenses	–17	–32	–93	–129
Operating profit/loss	**2**	**–2**	**–9**	**–22**
Net financial items	8	18	11	23
Profit before tax	**10**	**16**	**2**	**1**
Income tax	–4	–3	–2	0
Profit for the period	**6**	**13**	**0**	**1**

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

Condensed parent company balance sheet

SEKm	31 Dec 2018	31 Dec 2017
ASSETS		
Non-current assets	5,366	5,353
Current assets	38	51
TOTAL ASSETS	5,404	5,404
EQUITY AND LIABILITIES		
Equity	3,458	3,889
Non-current liabilities		
Borrowings	933	134
Derivative financial instruments	3	1
Provisions	1	1
Total non-current liabilities	937	136
Current liabilities		
Borrowings	500	999
Derivative financial instruments	1	0
Current liabilities	508	380
Total current liabilities	1,009	1,379
TOTAL EQUITY AND LIABILITIES	5,404	5,404

Condensed parent company statement of changes in equity

	Full year	
SEKm	2018	2017
Equity at beginning of period	3,889	4,093
Profit for the period	0	1
Total comprehensive income	0	1
Transactions with the owners		
Share–based payments	2	11
Dividend[1]	–433	–216
Total transactions with owners	–431	–205
Equity at end of period	3,458	3,889

1) The dividend paid consisted of an ordinary dividend of SEK 0.75 (0.75) per share and a special dividend of SEK 0.75 (0) per share.

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 2018. 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

Except for the changes below, the same accounting policies and methods of computation are applied in the interim financial statements as in the most recent annual financial statements. Reference is made to Note 1 'General information and accounting and valuation policies of the Group' and Note 34 'Changes in accounting policies' in the annual and sustainability report 2017 at www.cloetta.com.

This is the first year in which IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from contracts with customers' (IFRS 15) have been applied. Changes to significant accounting policies are described below.

Changes in significant accounting policies

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. Initially applying these standards has the following effect:

- Documentation requirements for hedge accounting applied;
- Allocation and presentation of revenue to the different performance obligations identified in the pick & mix sales.

Cloetta has applied IFRS 9 retrospectively from 1 January 2018. IFRS 9, published in July 2014, replaced the existing guidance in IAS 39 Financial Instruments, Recognition and Measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new standard also introduces expanded disclosure requirements and changes in presentation.

The Group has reviewed its financial assets and liabilities and assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Based on the assessments performed, Cloetta concluded that its current hedge relationships qualify as continuing hedges upon the adoption of IFRS 9 and has updated its hedge documentation in accordance with IFRS 9. This does not have an impact on the company's balance sheet or profit and loss account, nor does it have a material impact on other areas of Cloetta's consolidated financial statements.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. This standard replaces IAS 18 covering contracts for goods and services, IAS 11 covering construction contracts and IFRIC 13 covering customer loyalty programmes. Cloetta adopted IFRS 15 with a date of initial application of 1 January 2018 and applied this standard using the full retrospective approach. This means that any cumulative impact of the adoption is to be recognized in the retained earnings as of 1 January 2017 and that any comparable information impacted is to be restated. In this context it should be noted that the impact of the adoption on the balance sheet and profit and loss account is not material. The details of the changes and quantitative impact of the changes are set out below.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. In accordance with IAS 18, Cloetta only recognized one performance obligation related to sale of goods. The adoption of IFRS 15 did not result in any changes in the accounting for packaged business as this only comprises sale of goods. However, for the pick & mix sales, Cloetta identified the following performance obligations in contracts with customers in accordance with IFRS 15:

- Sale of goods;
- Leases of fixtures;
- Merchandising services.

The different performance obligations do not give rise to a different timing for recognizing revenue. For the performance obligation merchandising services – which is satisfied over time – Cloetta has selected an appropriate method for measuring Cloetta's progress towards complete satisfaction of that performance obligation. For merchandising services the practical expedient (IFRS 15.B16) is applicable, wherein Cloetta recognises revenue in the amount to which it has a right to invoice. Since delivery of goods as well as merchandising services normally takes place weekly, this output method best reflects the fulfilment of the delivery of the merchandising services, as performance obligation is satisfied at the same time as the goods are delivered.

Therefore, total revenues within the pick & mix sales only have to be allocated to an identified performance obligation, which impacts the presentation of disaggregated revenue but no line items in the profit and loss account and balance sheet are to be restated. IFRS 15 does not have an impact on the total assets, equity or loss for the year ended 31 December 2017 or for the period ended 31 December 2018. IFRS 15 does not have any other significant impact on the Group's revenue recognition.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have impact on the consolidated financial statements of the Group, except the following set out below:

IFRS 16, 'Leases', was issued in January 2016 and supersedes IAS 17 Leases. It will result in almost all leases being recognized on the balance sheet for Cloetta as lessee, as the distinction between operating and finance leases has been removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are to be recognized. The only exceptions are short-term and low-value leases. The standard is mandatory for financial years commencing on or after 1 January 2019.

The standard will affect the accounting for the Group's operating leases. The Group started the implementation process in 2016 and is on track with the transition process as disclosed in the consolidated annual report 2017. Following the impact assessment, Cloetta has completed the initial extraction of relevant data points for all lease contracts. A lease accounting solution has been selected and Cloetta is finalizing the enrichment of the data points in the lease accounting solution. Based on an impact analysis Cloetta decided to opt for the modified restrospective transition approach in which the Right of Use Asset will equal the lease liability per the transition date. For the calculation of the lease liability the discount rates as at 1 January 2019 will be used.

The operating leases that will be recorded on Cloetta's balance sheet as a result of IFRS 16 will mainly be for land and buildings (offices and warehouses), transport (cars, forklifts and trucks) and other equipment (e.g. IT, machinery, equipment, printers and coffee machines).

At this stage, the Group is not able to quantify the impact of the new rules on the Group's financial statements.

Disclosures

Disaggregation of revenue from contracts with customers

Cloetta generates revenues from the transfer of goods and services at a point in time and over time in the following major sales categories and performance obligations.

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Net sales				
Packaged business	1,192	1,137	4,499	4,256
Pick & mix	454	506	1,719	1,528
Total	**1,646**	**1,643**	**6,218**	**5,784**

Breakdown of net sales by category

%	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Net sales				
Sales of goods				
Candy	59	60	58	58
Chocolate	19	16	18	17
Pastilles	11	11	12	12
Chewing gum	6	7	6	7
Nuts	3	3	4	4
Other	2	3	2	2
Sub total	**100**	**100**	**100**	**100**
Other income				
Other	–	0	0	0
Total	**100**	**100**	**100**	**100**

Breakdown of net sales by country

%	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Sweden	34	31	31	34
Finland	20	22	21	21
The Netherlands	14	12	14	14
Denmark	11	6	9	7
Norway	5	8	6	6
Germany	4	5	5	5
UK	7	5	7	5
Other countries	5	11	7	8
Total	**100**	**100**	**100**	**100**

Taxes

The net effect of international tax rate differences and rate changes, changes in filing positions and non-deductible expenses impacted the effective tax rate of the Group unfavourably. Cloetta's deferred tax balances have been remeasured using the enacted tax rates, which impacted the effective tax rate of the Group favourably.

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 Candyking Holding AB and is subsidiaries initially categorized 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 28 April 2017 the contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was recognized in the amount of SEK 128m. The fair values of financial assets (loans and receivables) and liabilities measured at amortized cost are approximately equal to carrying amounts, with the exception of the forward contract to repurchase own shares which has a fair value of SEK 11m (liability) while the carrying amount is SEK 59m (liability). For measurement purposes, the fair value of financial assets and liabilities 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 (i.e. as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that were measured at fair value at 31 December 2018:

SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
– Forward foreign currency contracts	–	1	–	1
Total assets	**–**	**1**	**–**	**1**
Liabilities				
Liabilities at fair value through profit or loss				
– Interest rate swaps	–	5	–	5
– Contingent consideration	–	–	142	142
Total liabilities	**–**	**5**	**142**	**147**

The assets and 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 at 31 December 2017:

SEKm	Level 1	Level 2	Level 3	Total
Assets				
Assets at fair value through profit or loss				
– Forward foreign currency contracts	–	0	–	0
Total assets	**–**	**0**	**–**	**0**
Liabilities				
Liabilities at fair value through profit or loss				
– Interest rate swaps	–	3	–	3
– Contingent consideration	–	–	138	138
Total liabilities	**–**	**3**	**138**	**141**

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

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

SEKm	2018	2017
Opening Balance	**138**	**–**
Business combinations		128
Remeasurements recognized in profit or loss		
– Unrealized remeasurements on contingent considerations recognized in general and administrative expenses	–21	–5
– Unrealized interest on contingent considerations recognized in other financial expenses	25	15
Closing Balance	**142**	**138**

On 28 April 2017 the contingent earn-out consideration arising from the acquisition of Candyking Holding AB and its subsidiaries was recognized in the amount of SEK 128m. At the end of the quarter the expected undiscounted contingent earn-out consideration amounted to SEK 145m (discounted: SEK 142m). No transfers between fair value hierarchy levels has occured during the financial year or the prior financial year. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques 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) considerations requires the use of significant unobservable inputs and was 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 valueof 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 balance sheet 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) considerations are measured at fair value using a scenario model with an earn-out threshold, different results and related changes, and an applicable multiplier as input. These data are aligned with the earn-out contracts.

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

- The estimated fair value of the contingent earn-out consideration related to the acquisition of Candyking Holding AB and its subsidiaries would increase (decrease) if the forecasted Cloetta and Candyking combined sales volume of pick & mix in confectionery and natural snacks in the Nordic countries, the UK and Poland during 2018 were higher (lower).

Parent Company

Cloetta AB's primary activities include head office functions such as group-wide management and administration. The comments below refer to the period from 1 January to 31 December 2018. Net sales in the Parent Company amounted to SEK 84m (107) and referred mainly to intra-group services. Operating loss was SEK –9m (–22). Net financial items totaled SEK 11m (23). Profit before tax was SEK 2m (1) and profit for the period was SEK 0m (1). Cash and cash equivalents and short-term investments amounted to SEK 0m (0).

The Cloetta share

Cloetta's class B share is listed on Nasdaq Stockholm, Mid Cap. During the period from 1 January to 31 December 2018, a total of 282,884,050 shares were traded for a combined value of SEK 4,021m, equivalent to around 49 per cent of the total number of class B shares at the end of the period. The highest quoted bid price during the period from 1 January to 31 December 2018 was SEK 34.00 (30 January) and the lowest was SEK 22.80 (26 October). The share price on 31 December 2018 was SEK 24.30 (last price paid). During the period from 1 January to 31 December 2018, the Cloetta share decreased by 18.2 per cent while the Nasdaq OMX Stockholm PI index decreased by 7.7 per cent. Cloetta's share capital at 31 December 2018 amounted to 1,443,096,495. The total number of shares is 288,619,299, consisting of 5,735,249 (5,735,249) class A shares and 282,884,050 (282,884,050) class B shares, equal to a quota value of SEK 5 per share.

Shareholders

On 31 December 2018 Cloetta AB had 23,956 shareholders. The largest shareholder was AB Malfors Promotor with a holding corresponding to 37.8 per cent of the votes and 26.8 per cent of the share capital in the company. Wellington Management was the second largest shareholder with 8.4 per cent of the votes and 10.0 per cent of the share capital. The third largest shareholder was Franklin Templeton with 7.3 per cent of the votes and 8.6 per cent of the share capital. Institutional investors held 90.0 per cent of the votes and 88.2 per cent of the share capital. Foreign shareholders held 42.3 per cent of the votes and 49.8 per cent of the share capital.

Discontinued operation

On 5 September 2017 Cloetta Italia S.r.l. was sold to Katjes International GmbH.

Cloetta Italia S.r.l. is accounted for as a discontinued operation. The comparative figures in the consolidated profit and loss account and consolidated statement of comprehensive income have been restated to present the discontinued operation separately from continuing operations. Cloetta has recognized an impairment loss of SEK 159m on intangible assets and an impairment loss of SEK 238m on property, plant and equipment as a result of a write-down of the carrying value of the assets, subject to the disposal to their lower fair value less cost of disposal in the second and third quarter of 2017. The impairment loss is recognized in profit/loss from discontinued operation, net of tax. The disposal was completed via a transfer of the shares of Cloetta Italia S.r.l. Assets and liabilities which will be retained in the Cloetta Group were transferred within the group before the transfer of shares took place.

The following table presents the result from discontinued operation:

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Net sales	–	–	–	316
Cost of goods sold				
- Impairment loss	–	–	–	–238
- Other cost of goods sold	–	–	–	–181
Total cost of goods sold	–	–	–	–419
Gross profit/loss	**–**	**–**	**–**	**–103**
Selling expenses	–	–	–	–102
General and administrative expenses				
- Impairment loss	–	–	–	–159
- Other general and administrative expenses	–	–	–	–80
Total general and administrative expenses	–	–	–	–239
Operating loss	**–**	**–**	**–**	**–444**
Financial income	–	–	–	0
Financial expenses	–	–	–	–1
Net financial items	**–**	**–**	**–**	**–1**
Loss before tax and reclassification of currency translation differences on discontinued operation	**–**	**–**	**–**	**–445**
Income tax	–	–	–	9
Loss from discontinued operation before reclassification of currency translation difference on discontinued operation, net of tax	**–**	**–**	**–**	**–436**
Currency translation differences on discontinued operation reclassified from other comprehensive income	–	–	–	102
Profit/loss from discontinued operation, net of tax	**–**	**–**	**–**	**–334**

The following table presents the cash flow from discontinued operation:

SEKm	Fourth quarter Oct–Dec 2018	Fourth quarter Oct–Dec 2017	Full year 2018	Full year 2017
Cash flow from operating activities	–	–34	–	–40
Cash flow from investing activities	–	64	–	361
Cash flow from financing activities	–	–	–	–
Cash flow from discontinued operation	**–**	**30**	**–**	**321**

The following assets and liabilities were classified as held for sale in relation to the discontinued operation at 5 September 2017:

SEKm	5 Sep 2017
Intangible assets	99
Property, plant and equipment	165
Deferred tax asset	7
Other financial assets	1
Inventories	176
Other current assets	197
Cash and cash equivalents	18
Total assets disposed	**663**
Borrowings	64
Deferred tax liability	11
Provisions for pensions and other long-term employee benefits	61
Provisions	3
Other current liabilities	194
Total liabilities disposed	**333**
Carrying amount of net assets held for sale	**330**
Disposal consideration received	330
Minus: Carrying amount of net assets disposed	–330
Result on disposal, before income tax	**–**
Income tax on result on disposal	–
Result on disposal, net of tax	**–**

Seasonal variations – discontinued operations

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 the quarter in which 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 Italy in connection with the holiday season.

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 and sustainability report 2017 and consist of industry and market-related risks, operational risks and financial risks. Compared to the annual and sustainability report which was issued on 8 March 2018, no new risks have been identified.

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 metric 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. It is used 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 includes equity, but takes into account borrowings and other liabilities as well.
Return on equity	Profit from continuing operations 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 the 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.	The net debt is used as an indication of the ability to pay off all debts if these became 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 were 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, the leverage takes into account net debt instead of 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 irrespective of the capital investments and cash flows related to the financing structure of the company.

Data per share	Definition/calculation	Purpose
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 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
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 metric enables the income tax to be compared across locations where corporate taxes differ.
Items affecting comparability	Items affecting comparability are those significant items which are separately disclosed by virtue of their size or incidence in order to enable a full understanding of the Group's financial performance. These include items such as restructurings, impact from acquisitions or divestments.	Items affecting comparability increases the comparability of the Group's financial performance.
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 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 realised top-line growth over time.
Operating profit (EBIT)	Operating profit consists of comprehensive income before net financial items and income tax.	This metric enables the profitability to be compared across locations where corporate taxes differ, irrespective the financing structure of the company.
Operating profit (EBIT), adjusted	Operating profit, adjusted for items affecting comparability.	EBIT, adjusted increases the comparability of EBIT.
Organic growth	Net sales, change exluding 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 the net sales growth.

Glossary

Branded packaged products	Products that are mainly sold under brands and are packaged.
Pick & mix	Cloetta's range of candy and natural snacks that are picked by the consumers themselves.
Pick & mix concept	Cloetta's complete concept in pick & mix including products, displays and accompanying store and logistic services.

Exchange rates

	31 Dec 2018	31 Dec 2017
EUR, average	10.2543	9.6362
EUR, end of period	10.2274	9.8210
NOK, average	1.0672	1.0324
NOK, end of period	1.0294	0.9997
GBP, average	11.5917	10.9909
GBP, end of period	11.3992	11.0684
DKK, average	1.3760	1.2956
DKK, end of period	1.3698	1.3192

Financial calendar

2019												2020		
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR

Capital markets day
14 March 2019

Annual General Meeting
4 April 2019

Interim report Q1
26 April 2019

Interim report Q2
12 July 2019

Interim report Q3
25 October 2019

Interim report Q4
29 January 2020

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This information is information that Cloetta AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person detailed above, at 1:00 p.m. CET on 25 January 2019.

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 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.

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 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 and the Netherlands. Cloetta products are sold in more than 50 countries worldwide. Cloetta owns some of the strongest brands on the market, such as Läkerol, Cloetta, Candyking, Jenkki, Kexchoklad, Malaco, Sportlife and Red Band. Cloetta has eight production units in five countries. Cloetta's class B shares are traded on Nasdaq Stockholm.

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