Financial Statements 2019

PAULIG

For a life full of flavour.

Contents

Board of Directors' report for 1 January–31 December 2019

In 2019, Paulig Group's revenue was EUR 921.4 million (908.2 in 2018), an increase of 1.4 per cent on the previous year. The Group's operating profit was EUR 75.4 million (73.9), which was 8.2 per cent (8.1) of net sales. Paulig Group employed 2 115 people on average during the year (2 140).

Changes in Group structure during the financial year

The following changes took place in the Group's structure in 2019:

- Risenta Norway AS was merged with Santa Maria Norge AS.
- Bruce Foods Europe B.V. was liquidated.
- Färska Örter på Neongatan AB was liquidated.
- OOO Kulma was established.
- Mode Cold Brew AB was sold.

The Group's operating model was changed during the year and instead of the previously existed divisions the Group is now organised as Business Areas and Business Functions.

Revenue

In 2019, Paulig Group's revenue was EUR 921.4 million (908.2), an increase of 1.4 per cent on the previous year.

Of Paulig Group's total revenue of EUR 921.4 million, 54 per cent came from the Nordic countries and 46 per cent from other countries. Business Area Finland & Baltics accounted for 33 per cent of the external net sales, Scandinavia & Central Europe 30 per cent, Customer Brands 29 per cent, East 7 percent and Other 1 per cent.

REVENUE (MEUR)

	2019	2018	CHANGE
Finland & Baltics	**301.7**	310.6	-2.9%
Scandinavia & Central Europe	**276.6**	283.3	-2.3%
Customer Brands	**267.4**	251.3	6.4%
East	**62.6**	53.1	18.0%
Other	**13.0**	10.0	30.2%
Total	**921.4**	908.2	1.4%

Result for the financial year

The Group's operating profit was EUR 75.4 million (73.9), and its ratio to net sales was 8.2 per cent (8.1).

The consolidated result for the financial year, EUR 51.6 million (54.3) included EUR 15.1 million profit from real estate sales associated with the sale of land areas in Vuosaari. Depreciation and impairment totalled EUR 61.8 million (43.5), with the goodwill impairments representing EUR 5.6 million of the total and impairments of fixed assets representing EUR 11,2 million. In addition to the impairments, the consolidated result was negatively affected by non-recurring items related to the changes in the Group's operating model.

The associated company's (Fuchs Group) contribution to the consolidated result was EUR -1.7 million (1.3). The result of the associated company was affected by non-recurring write-downs.

KEY INDICATORS OF PAULIG GROUP'S FINANCIAL STATUS AND RESULT

	2019	2018
Revenue, MEUR	**921.4**	908.2
Other income, MEUR	**16.1**	1.4
Share of results in associated companies, MEUR	**-1.7**	1.3
Operating profit, MEUR	**75.4**	73.9
Operating profit, % of net sales	**8.2**	8.1
Operating profit before depreciation, amortization and impairment, MEUR	**137.2**	117.4
Profit for the financial year, MEUR	**51.6**	54.3
Shareholders' equity, MEUR	**649.2**	620.7
Return on equity, %	**8.1**	8.9
Equity ratio, %	**64.0**	64.4
Cash and short-term deposits, MEUR	**80.6**	61.3
Interest-bearing liabilities, MEUR	**118.3**	125.5
Investments, MEUR	**31.3**	29.3

2017 comparison information in accordance to FAS is excluded from the key indicators of Paulig Group's financial status and result due to IFRS incomparability.

Financial position

Due to the Group's strong cash flow during the financial year, the financial position remained good for the entire financial year. Cash flow was positive during the financial year with net cash flow from operations being EUR 103.6 million (97.8). The Group's solvency was at a good level throughout the year.

Investments

Investments during the financial year totalled EUR 31.3 million (29.3). In addition to investments related to land deals in Finland the most significant investments were related to production machinery in Belgium and in the UK.

Risks

In its risk management Paulig Group observes the risk management policy adopted by Paulig Ltd's Board of Directors. Risks are systematically identified and assessed based on this policy.

In the management of liability risks the Group follows the insurance policies adopted by the Board of Directors. The insurance coverage against damage related to property and business, such as product liability and interruption of operations, is comprehensive in accordance with these policies.

The Group's main strategic and operative risks remained the same during the financial year as in the previous years. The principal strategic risks were changes in competition and consumer behaviour in different market areas. The principal operative risk involves raw materials, the availability and quality of which may vary significantly. In addition, speculative trading of raw materials can cause unexpected changes to their prices. In the management of risks associated with acquisition of coffee raw materials, the Group follows the policies adopted by the Board of Directors.

In the management of financial risks the Group follows the treasury policy adopted by the Board of Directors. Availability of sufficient financing for the business in the future has been guaranteed with credit facilities also in the current solvent situation. The treasury policy also covers hedging of currency and interest rate risks. The most significant of these risks is the currency risk associated with the US dollar, as a substantial share of raw materials is paid for in dollars.

Personnel

Paulig Group's average number of employees decreased by 25 persons from the previous year.

The majority of the Group's 2 115 employees on average were employed in Belgium (29 per cent), Sweden (23 per cent) and Finland (21 per cent).

KEY PERSONNEL INDICATORS

	2019	2018
Average number of employees	**2 115**	2 140
Employee benefit expenses, MEUR	**132.4**	128.5

Innovation and product development

Paulig's Strategy, Marketing & Innovations function is responsible for the group's innovation and product development activities. Innovation and product development plays an important role in the development of the product portfolio and ensuring future growth. During the year Paulig introduced several new products to the market under the group's various brands, including: the Paulig Cold Brew Sparkling drinks, the Paulig City Coffee cold drinks' product family and Paulig Café Moscow.

Gold&Green developed its product range further, for example Deli Oats products that were introduced in the beginning of 2020 in Finland. The work to establish the plant-based category internationally continues.

During 2019 the Risenta brand and products were updated and the renewal will be visible to the consumers in 2020.

Under the Poco Loco brand Chia wraps were launched as a seasonal product during the BBQ season and two new Street Food dinner kits flavours were developed and brought into market: Smoky Chipotle and Chili & Lime.

Product development also focused on updating existing products and improving recipes. Besides flavour, content and concept, product development focuses on packaging, which must be kept up to date and have a strong profile in order to be valued by customers.

Under the Santa Maria brand a sustainable tortilla package was launched resulting in a 35 per cent lower climate impact compared to the former packaging solution. In addition, the Santa Maria Coconut Milk packaging was renewed. The aluminium was replaced by cardboard, which reduces greenhouse gas emissions of the packaging.

Sustainability

Paulig's sustainability efforts have a strong link to the UN Sustainable Development Goals and they are based on the group's values and ethical principles. Paulig's work in this area is guided by the most significant impacts arising from the group's operations as well as stakeholder expectations.

As a food company, Paulig's most significant sustainability risks are related to product safety and quality. Observing human rights and workplace safety throughout the supply chain is also among the key challenges, and the Group pays special attention to the management and development of these areas. Climate change and biodiversity loss are the biggest long-term risks, particularly with respect to the cultivation of climate-sensitive crops, such as coffee. In our operations, we focus on promoting sustainable sourcing, operating in a resource-efficient manner and supporting environmentally friendly choices by consumers.

In 2019, Paulig set a strategic ambition to be a sustainable frontrunner within food & beverage industry and to achieve this we created a new, long-term sustainability approach to be implemented as part of our strategy and business operations across Paulig categories and countries. The approach was approved by Paulig Ltd's Board of Directors in February 2020.

Paulig Sustainability Approach 2030 is based on three prioritized United Nations' Sustainable Development Goals: Decent work and economic growth, Responsible consumption and production and Climate action.

Our sustainability approach has three focus areas with long term ambitions: health and wellbeing, climate action and circularity and fair and inclusive way of working.

Paulig Group's sustainability efforts is presented in more detail in the separate Sustainability Report at ***www.pauliggroup.com/sustainability***

Management and auditors

At the end of the financial year, Paulig Ltd's Board of Directors had seven members: Sanna Suvanto-Harsaae (chairman), Robin Hallberg, Christian Köhler, Jukka Moisio, Eduard Paulig, Harri Pulli and Jon Sundén.

During the financial year, Jessica Jungell-Michelsson has been an observer member of the Board.

The Group's CEO is Rolf Ladau.

The Group's auditor has been Ernst & Young Oy, with Authorised Public Accountant Bengt Nyholm as the principal auditor.

Shares

The company's stock is divided into A shares (487 765 shares) and B shares (15 000 shares), total 502 765 shares. There were no changes in this during the financial year.

The Articles of Association contain restrictions specific to share series that concern the right to dividends and company assets, as well as a series-specific redemption clause.

Proposal by the Board of Directors for distribution of profit

The consolidated profit for the financial year was EUR 51 616 097.84. The parent company's distributable shareholders' equity was EUR 183 936 407.25 according to the financial statements on 31 December 2019. The Board of Directors proposes that a dividend of EUR 25.57 per share be paid, amounting to EUR 12 855 701.05 in total. The parent company's distributable shareholders' equity would then be EUR 171 080 706.2.

There have been no fundamental changes in the company's financial position since the end of the financial year. Liquidity is at a good level, and the proposed disposal of profits will not, in the Board's view, endanger the company's solvency.

Outlook for the current financial year

Revenue and net result are expected to increase in 2020 from the previous year. The company is closely monitoring the corona virus outbreak and taking measures concerning the possible implications to the business.

Events following the end of the financial year

There have been no significant events following the end of the financial year.

Consolidated Statement of Comprehensive Income

EUR 1 000	NOTE	2019	2018
Revenue	3.1	**921 392**	908 246
Other operating income	3.2	**16 060**	1 424
Materials and services	3.3	**-501 733**	-486 949
Employee benefit expenses	3.4, 5.8	**-132 389**	-128 456
Depreciation, amortisation and impairment losses	4.1– 4.4	**-61 846**	-43 458
Other operating expenses	3.5	**-164 469**	-178 144
Share of result in associated companies	2.5	**-1 657**	1 278
Operating profit		**75 358**	73 941
Financial income	3.6	**8 426**	6 810
Financial expenses	3.6	**-11 939**	-9 071
Net financial expenses		**-3 513**	-2 262
Profit (-loss) before taxes		**71 845**	71 679
Income taxes	3.7	**-20 229**	-17 361
Profit (-loss) for the financial year		**51 616**	54 319

EUR 1 000	NOTE	2019	2018
Other comprehensive income (OCI)			
Items that may be reclassified to profit or loss in subsequent periods			
Foreign currency translation difference		**-1 019**	-10 112
Change in fair value of hedging instruments	6.4	**2 262**	83
Items that will not be subsequently reclassified to profit or loss			
Actuarial gains and losses from defined benefit plans	5.8	**-4 885**	-806
Changes in fair value of equity investments through OCI		**1 012**	2 318
Tax effect	3.7	**881**	-273
Other comprehensive income (-loss), net of tax		**-1 749**	-8 789
Total comprehensive income (-loss) for the year		**49 867**	45 529
Profit for the financial year attributable to			
Owners of the parent company		**55 381**	58 202
Non-controlling interest	2.3	**-3 765**	-3 884
		51 616	54 319
Total comprehensive income for the year attributable to			
Owners of the parent company		**53 632**	49 413
Non-controlling interest	2.3	**-3 765**	-3 884
		49 867	45 529

The consolidated financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

EUR 1 000	NOTE	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
ASSETS				
Non-current assets				
Goodwill	4.1, 4.2	**62 143**	68 973	71 085
Intangible assets	4.1	**15 113**	18 314	19 404
Tangible assets	4.3	**306 736**	328 411	346 467
Shares in associated companies	2.5	**72 130**	75 212	75 461
Other receivables	5.2	**1 124**	2 142	2 944
Non-current financial assets	6.2	**56 595**	8 791	11 832
Deferred tax assets	3.7	**5 425**	4 185	4 056
Total non-current assets		**519 265**	506 028	531 250
Current assets				
Inventories	5.1	**129 972**	95 468	102 523
Trade and other receivables	5.2	**137 221**	142 113	151 331
Other current financial assets	6.2–6.4	**142 507**	149 996	113 746
Income tax receivable		**4 681**	5 403	3 693
Cash and short-term deposits	5.3, 6.2	**80 554**	61 284	51 361
Total current assets		**494 934**	454 264	422 655
Assets held for sale	5.4	**3 783**	4 237	0
Total assets		**1 017 982**	964 529	953 904

EUR 1 000	NOTE	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
EQUITY AND LIABILITIES				
Equity	6.1			
Share capital		**8 204**	8 204	8 204
Other equity		**648 386**	616 034	585 809
Equity attributable to equity holder of the parent		**656 590**	624 237	594 012
Non-controlling interest		**-7 439**	-3 509	391
Total equity		**649 150**	620 727	594 403
Non-current liabilities				
Interest-bearing liabilities	5.7	**105 496**	113 236	124 277
Other non-current financial liabilities		**129**	66	14
Provisions	5.6	**2 478**	2 431	2 439
Net employee defined benefit liabilities	5.8	**25 791**	19 539	17 871
Deferred tax liabilities	3.7	**12 004**	12 350	12 204
Total non-current liabilities		**145 898**	147 623	156 805
Current liabilities				
Interest-bearing liabilities	5.7	**12 851**	12 272	11 688
Trade and other payables	5.5, 6.2–6.4	**201 516**	182 773	189 747
Income tax payable		**4 317**	1 133	1 261
Total current liabilities		**218 684**	196 178	202 696
Liabilities directly associated with the assets held for sale	5.4	**4 250**	0	0
Total liabilities		**368 832**	343 800	359 501
Total equity and liabilities		**1 017 982**	964 529	953 904

The consolidated financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

EUR 1 000	NOTE	2019	2018
Cash flows from operating activities			
Net profit (-loss) before taxes		**71 845**	71 679
Adjustments 1)		**55 988**	41 675
Change in net working capital:			
Change in trade and other receivables		**5 404**	4 852
Change in inventory		**-34 525**	3 687
Change in trade and other payables		**23 528**	-5 014
Dividends received		**1 426**	1 526
Interest received		**5 737**	4 298
Interest paid		**-7 894**	-8 324
Other financial income and expenses, net		**-1 003**	2 311
Income taxes paid		**-16 901**	-18 888
Cash flows from operating activities (A)		**103 603**	97 801
Cash flows from investing activities			
Investments in tangible and intangible assets	4.1–4.4	**-31 324**	-29 259
Proceeds from disposal of tangible assets		**21 160**	172
Disposal of other shares		**0**	275
Dividends received		**165**	151
Net cash flow from short-term investments		**-40 549**	-31 954
Cash flows from investing activities (B)		**-50 548**	-60 615
Cash flows from financing activities 2)			
Increase (-), decrease (+) in long-term receivables		**707**	801
Dividends paid		**-21 116**	-16 088
Repayments of leasing liability	4.4	**-13 376**	-11 976
Cash flows from financing activities (C)		**-33 785**	-27 263
Change in cash flows (A+B+C)		**19 270**	9 923
Cash and short-term deposits at 1 January	5.3	**61 284**	51 361
Cash and short-term deposits at 31 December	5.3	**80 554**	61 284
Change		**19 270**	9 923

EUR 1 000	NOTE	2019	2018
1) Adjustments			
Depreciation, amortisations and impairments	4.1–4.4	**61 846**	43 458
Share of associated companies results	2.5	**1 657**	-1 278
Eliminated foreign exchange gains and losses		**211**	-1 308
Financial income and expenses	3.6	**3 513**	2 262
Other adjustments		**-11 240**	-1 459
Total		**55 988**	41 675

2) Changes in liabilities arising from financing activities

Cash flow from financing activities consist of dividends paid, received finance lease receivable payments and repayments of leasing liability. The movements in leasing liabilities are presented in note 4.4 Leases.

Consolidated Statement of Changes in Equity

	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY										
EUR 1 000	SHARE CAPITAL	OTHER RESTRICTED EQUITY FUNDS	REVALUATION FUND	CASH FLOW HEDGE FUND	OTHER OCI ITEMS	TRANSLATION FUND	UNRESTRICTED EQUITY FUNDS	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
Balance at 1 January 2018 (FAS)	**8 204**	**4 168**	**161**	**1 255**		**-29 926**	**4 324**	**609 370**	**597 556**	**391**	**597 947**
Impact of adoption of IFRS				108	1 761	29 926		-35 338	-3 543		-3 543
Balance at 1 January 2018 (IFRS)	**8 204**	**4 168**	**161**	**1 363**	**1 761**	**0**	**4 324**	**574 032**	**594 012**	**391**	**594 403**
Profit for the period								58 202	58 202	-3 884	54 318
Other comprehensive income											
Cash flow hedge, net of tax				-1 280					-1 280		-1 280
Change in fair value of equity instruments at FVOCI					93				93		93
Defined benefit plan actuarial gains and losses, net of tax					-615				-615		-615
Translation differences						-10 112			-10 112	-16	-10 128
Other items								24	24		24
Total comprehensive income				**-1 280**	**-522**	**-10 112**		**58 226**	**46 312**	**-3 900**	**42 412**
Transactions with owners of the parent company											
Dividend								-16 088	-16 088		-16 088
Balance at 31 December 2018 (IFRS)	**8 204**	**4 168**	**161**	**83**	**1 239**	**-10 112**	**4 324**	**616 170**	**624 237**	**-3 509**	**620 727**
Profit for the period								55 381	55 381	-3 765	51 616
Other comprehensive income											
Cash flow hedge, net of tax				2 262					2 262		2 262
Change in fair value of equity instruments at FVOCI					809				809		809
Defined benefit plan actuarial gains and losses, net of tax					-3 802				-3 802		-3 802
Translation differences						-1 019			-1 019		-1 019
Other items			-161						-161		-161
Total comprehensive income			**-161**	**2 262**	**-2 993**	**-1 019**		**55 381**	**53 470**	**-3 765**	**49 705**
Transactions with owners of the parent company											
Disposal of subsidiaries										-165	
Dividend								-21 116	-21 116		-21 116
Balance at 31 December 2019 (IFRS)	**8 204**	**4 168**	**0**	**2 345**	**-1 754**	**-11 131**	**4 324**	**650 435**	**656 590**	**-7 439**	**649 150**

The consolidated financial statements should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENT

1.1 CORPORATE INFORMATION

Paulig Ltd, the parent company of Paulig Group, is a Finnish limited liability company incorporated under the Finnish law with its domicile in Helsinki, Finland. The registered office is located at Satamakaari 20 in Helsinki. The consolidated financial statements comprise the parent company Paulig Ltd and its subsidiaries (collectively "Group", "Paulig Group" or "Group companies").

Paulig Group is an international family-owned Group in the food industry offering products such as coffee, spices, plant-based products and snacks. The Group's business is divided into four business areas: Finland & Baltics, Scandinavia & Central Europe, East and Customer Brands. Paulig Group operates in 13 countries with largest markets in Northern Europe, the UK, the Baltics and Russia.

The Board of Directors of Paulig Ltd has approved these financial statements for publication at its meeting on 26 March 2020. Under Finland's Limited Liability Companies Act, the shareholders have the option to accept or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

Copies of the financial statements are available on the internet, at www.pauliggroup.com, or at the parent company's head office in Helsinki.

1.2 BASIS OF PREPARATION

Paulig Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, including International Accounting Standards (IAS) and Interpretations issued by the IFRS Interpretations Committee (IFRIC) or its predecessor Standing Interpretations Committee (SIC). The notes to the consolidated financial statements also comply with Finnish accounting and corporate law.

The 2019 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets and financial liabilities (including derivative instruments) that have been measured at fair value through profit and loss or other comprehensive income (OCI).

Financial statement presentation is in thousands of euros. Figures presented have been rounded and therefore the sum of individual figures might differ from the presented total figure.

Detailed accounting principles are disclosed in the relevant note to the consolidated financial statements.

1.3 FOREIGN CURRENCY

Presentation currency

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Foreign subsidiaries

The income statements of the foreign subsidiaries in their local currencies are translated into euro at the average rates for the period during the financial year and the balance sheets at the rates determined by the European Central Bank at the closing date (balance sheet date). The figures in the notes (specifications) are translated into euro in the similar manner as the income statements and balance sheet depending on which the notes relate to. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

Foreign currency transactions

Business transactions in foreign currencies have been valued using the exchange rate at the date of transaction. Receivables and liabilities on the balance sheet date are valued using the exchange rate on the balance sheet date. Advances paid and received are valued in the balance sheet using the exchange rate at the date of payment. Exchange rate differences on trade receivables and payables are treated as the adjustments to revenue and materials and services. Exchange rate differences on other receivables and liabilities are entered under financial income and expenses.

1.4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Paulig Group's consolidated financial statements according to IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Although estimates and assumptions are based on the management's best knowledge of current events, actual results may differ from the estimates used in the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Identified significant accounting judgements, estimates and assumptions are presented in connection to the items considered to be affected and are attached to the underlying note as follows:

NOTE	NOTE NUMBER
Change in deferred tax assets and liabilities	3.7
Goodwill and impairment testing	4.2
Leases	4.4
Provisions	5.6
Pensions and other post-employment benefit plans	5.8

1.5 FIRST-TIME ADOPTION OF IFRS STANDARDS

These financial statements, for the year ended 31 December 2019, are the first Paulig Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2018, the Group prepared its financial statements in accordance with Finnish accounting standards (FAS).

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2019, together with the comparative period data as at and for the year ended 31 December 2018 and an opening balance as of 1 January 2018, as described in accounting principles. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2018, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its FAS financial statements, including the statement of financial position as at 1 January 2018 and the financial statements as at and for the year ended 31 December 2018.

EXEMPTIONS APPLIED

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

Business Combinations and reversal of goodwill amortisation

IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates that occurred before 1 January 2018. Use of this exemption means that the local GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, the measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the local GAAP (FAS) carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). The 2018 financial statements according to FAS included EUR 22.3 million goodwill amortisation as of December 31, 2018. According to IFRS goodwill is not amortised but tested for impairment on a yearly basis. The goodwill amortisations were adjusted and excluded from IFRS income statement and were restored in the goodwill amount as of 31 December 2018. In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2018 nor at 31 December 2018.

Translation difference

Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2018. The resulting adjustment EUR 29.9 million was recognised against retained earnings.

Leases

IFRS 16 Leases standard requires a lessee to recognise assets and liabilities on the balance sheet for almost all leases with two limited optional recognition exemptions. Leases with a lease term 12 months or less and leases relating to low-value assets are treated as off balance sheet lease agreements and the lease payments are recognised as expenses in the income statement during the lease term.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2018. Right-of-use assets were measured at the amount equal to the lease liabilities on the date of transition. The group has elected not to apply recognition requirements to leases for which the lease term end within 12 months as at 1 January 2018.

In the opening balance 1 January 2018, the right-of-use assets amounted EUR 134.8 million including a reduction of EUR 2.8 million relating to subleased premises which was classified as a finance lease. Corresponding amount was recognised as a finance lease receivable included in the other receivables in the balance sheet. The right-of-use assets included also a recognition of impairment loss EUR 0.8 million related to the same subleased premises. Related deferred tax receivable of EUR 0.2 million was recorded correspondingly and the total effect of an impairment loss was recognised against retained earnings. Lease liability amounted EUR 136.0 million at the date of transition and EUR 2.4 million provision related to the obligation to restore the premises was also recognised and also included in the measurement of underlying right-of-use asset.

Non-controlling interest

Paulig Group has subsidiaries with negative equity. According to FAS comprehensive income is not attributed to the parent and to the non-controlling interest when resulting in the non-controlling interest having a deficit balance. According to IFRS the entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and also to the non-controlling interest even if leading to a deficit balance of the non-controlling interest. IFRS requirements are applied upon transition resulting in EUR -3.6 million deficit balance recorded in the non-controlling interest as a part of equity as of 31 December 2018 and EUR - 3.9 million is attributed from total comprehensive income of comparative year 2018 to the non-controlling interest.

ESTIMATES

The estimates at 1 January 2018 and at 31 December, 2018 are consistent with those made for the same dates in accordance with FAS (after adjustments to reflect any differences in accounting policies) apart from the pension and other post-employment benefit items and leased assets where application of FAS did not require estimation.

OTHER ADJUSTMENTS AND EFFECTS OF TRANSITION

Investment in associate

Paulig Group holds a 26.135% interest in its associate DF World of Spices GmbH (Fuchs). 25.01% of the share in Fuchs is owned through 100% owned subsidiary of Paulig Group. 1.125% share is owned through an another associate. According to IFRS's the holdings of the group's other associates or joint ventures are ignored when determining Group's share in the associate. According to FAS the share of the result in associate was calculated based on 26.135% interest. IFRS requirements are applied and the share of the result in associate is adjusted to correspond 25.01% interest in the associate for year 2018 and onwards. Also the goodwill depreciation made by Fuchs Group in its own consolidated financial statements of year 2018 has been reversed when calculating Paulig Group’s share of result in Fuchs for financial year 2018. The effect of the adjustments amounted to EUR 1.2 million and was recorded in the shares in associated companies in the balance sheet and corresponding amount in the share of associated companies’ result in the comprehensive income. No other adjustments were made into the Fuchs financial statements as it was considered not having material impact from IFRS perspective.

Financial assets

Paulig Group has designated certain equity instruments at fair value through OCI that would otherwise by measured at FVTPL as permitted by IFRS 1. A fair value adjustment of EUR 2.2 million have been recorded increasing the equity instruments and other comprehensive income. Related deferred tax liability of EUR 0.4 million was recorded correspondingly. Gains and losses on these financial assets are never recycled to profit or loss. These equity instruments are considered long term investments and are not held for trading purpose. These equity instruments were measured at amortized cost under FAS.

Paulig Group had previously measured money market fund at amortized cost. As a result of adoption of IFRS standards this is measured at fair value through profit or loss resulting in EUR 0.3 million fair value adjustment recorded in other current financial assets and retained earnings. Related deferred tax liability of EUR 0.1 million was recorded correspondingly.

Employee benefits

In the transition to IFRS some of the employee benefit plans were reclassified as a defined benefit plans and recognised on an actuarial basis which in accordance to FAS were classified as defined contributions plans and were recognised on a cash basis. For some of the plans recognition was not required under FAS. The pension liability has been recognised in full against retained earnings in accordance with IAS 19.

At the date of transition to IFRS, defined benefit plan liability amounting to EUR 7,6 million (31.12.2018: EUR 7,9 million), previously presented as interest-bearing liabilities, was reclassified to net employee defined benefit liability. In addition a defined benefit liability, derived from IAS 19 requirements, of EUR 10.3 million and related deferred tax receivable of EUR 2.1 million was recorded and recognised in full against retained earnings. After initial recognition of the defined benefit liability the Group has recorded an adjustment amounting EUR 0.3 million through profit or loss and EUR 0.7 million through other comprehensive income during the year 2018. In connection EUR 2.7 million employee benefit asset was derecognised from the balance sheet and recorded against retained earnings as it did not meet the recognition criteria under IAS 19. The increase of EUR 0.1 million in employee benefit assets during the year 2018 was recognised through other comprehensive income.

Fixed assets

Paulig Group has not included spare parts and stand by equipment in inventories nor fixed assets when the financial statements have been prepared in accordance with FAS. These have been expensed at the time of purchase. According to IAS 16, Property, plant and equipment, standard such items are recognised as fixed assets when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. At the date of transition to the IFRS’s fixed assets value was increased by EUR 7.8 million (31.12.2018: EUR 7.9 million) and retained earnings by EUR 5.8 million to meet the criteria in IAS 16 standard. Also related deferred tax liability of EUR 2.1 million was recorded 1 January 2018 and was increased by EUR 25 thousand during the year 2018.

RECLASSIFICATIONS:

Financial assets and liabilities

Paulig Group has previously presented long- and short-term bonds and investments in interest funds as a part of cash and bank in the balance sheet. Due to the adoption of IFRS standards EUR 8.8 million (31.12.2018: EUR 5.6 million) were reclassified to non-current financial assets and EUR 112.2 million (31.12.2018: EUR 147.3 million) to other current financial assets measured at fair value through profit or loss at the date of transition to IFRS. Also accrued interest receivables EUR 0.1 million (31.12.2018: 0.1) were reclassified from other receivables to other current financial assets.

The fair value of open positive derivatives were reclassified from other receivables to other current financial assets amounting EUR 1.6 million (31.12.2018: EUR 2.7 million). In addition derivative instruments under hedge accounting amounting EUR 0.1 million (31.12.2018: EUR -0.1 million), previously presented as net in other receivables, were reclassified to other current financial assets and liabilities accordingly and the recognition was reclassified from balance sheet to other comprehensive income and retained earnings.

Assets held for sale

The Group has presented some of the land areas as assets held for sale as of 31 December 2018. These were measured at their carrying amount of EUR 4.2 million which is the lower of the land areas carrying amounts and fair value less costs to sell. Land areas held for sale were presented as a part of tangible assets according to FAS.

Capitalized leasehold improvements

Under Finnish accounting standards, capitalised leasehold improvement costs are presented as intangible assets. According to IFRS these are presented as tangible assets under IAS 16 and have thus been reclassified from intangible assets to tangible assets in IFRS. The reclassification amounted EUR 2.1 million at the date of transition (31.12.2018: EUR 1.9 million).

Financial income and expenses

Profit or loss effect of the derivative instruments that are not hedge accounted was presented either as an adjustment to revenue, purchases or other operating expenses in FAS. To comply with IFRS 9 requirement the adjustments have been reclassified to financial income amounting EUR 3.1 million and to financial expenses amounting EUR 0.7 million.

Apartment shares

Paulig owns apartment shares which were classified as non-current financial assets under FAS. The classification changed under IFRS and the carrying amounts of apartment shares were reclassified to tangible assets amounting EUR 0.8 million (31.12.2018: EUR 0.8 million). Measurement principles did not change and the apartment shares are measured at cost.

Consolidated statement of comprehensive income 2018

	FAS							IFRS
EUR 1 000	2018	GOODWILL	EMPLOYEE BENEFITS	LEASES	FINANCIAL INSTRU-MENTS	OTHER	TOTAL EFFECTS OF TRANSITION TO IFRS	2018
Revenue	907 498					747	747	908 246
Other income	1 424							1 424
Materials and services	-484 039					-2 911	-2 911	-486 949
Employee benefit expenses	-128 024		-432				-432	-128 456
Depreciation, amortisation and impairment losses	-47 409	16 466		-12 515			3 951	-43 458
Other expenses	-193 717			15 594		-21	15 573	-178 144
Share of results in associated companies	-5 764	7 042					7 042	1 278
Operating profit	**49 970**	**23 508**	**-432**	**3 079**		**-2 185**	**23 972**	**73 941**
Net financial expenses	-110			-4 410	-53	2 311	-2 152	-2 262
Profit (-loss) before taxes	**49 861**	**23 508**	**-432**	**-1 331**	**-53**	**126**	**21 820**	**71 679**
Income taxes	-17 535	-160	89	261	11	-25	176	-17 361
Profit (-loss) for the financial year	**32 325**	**23 348**	**-343**	**-1 070**	**-42**	**101**	**21 996**	**54 319**
Other comprehensive income								
Items that may be subsequently reclassified to profit or loss								
Foreign currency translation difference						-10 112	-10 112	-10 112
Change in fair value of hedging instruments						83	83	83
Items that will not be subsequently reclassified to profit or loss								
Actuarial gains and losses from defined benefit plans			-806				-806	-806
Changes in fair value of equity investments through OCI					2 318		2 318	2 318
Tax effect			191		-464		-273	-273
Other comprehensive income (-loss), net of tax			**-615**		**1 854**	**-10 029**	**-8 789**	**-8 789**
Total comprehensive income (-loss) for the year	**32 325**	**23 348**	**-958**	**-986**	**1 812**	**-9 965**	**13 252**	**45 529**
Profit for the financial year attributable to								
Owners of the parent company	32 534	23 348	-343	-1 070	-42	101	21 996	58 202
Non-controlling interest	-209					-3 675	-3 675	-3 884
Total comprehensive income for the year attributable to								
Owners of the parent company	32 534	23 348	-958	-986	1 812	-6 290	16 927	49 413
Non-controlling interest	-209					-3 675	-3 675	-3 884

Consolidated balance sheet January 1, 2018

EUR 1 000	FAS 1 JANUARY 2018	RECLASSIFI-CATION	EMPLOYEE BENEFITS	LEASES	FINANCIAL INSTRU-MENTS	OTHER	TOTAL EFFECTS OF TRANSITION TO IFRS	IFRS 1 JANUARY 2018
ASSETS								
Non-current assets								
Goodwill	71 085							71 085
Intangible assets	21 511	-2 107					-2 107	19 404
Tangible assets	200 912	2 935		134 810		7 809	145 554	346 467
Shares in associated companies	75 461							75 461
Other receivables	3 653		-2 676	1 967			-709	2 944
Non-current financial assets	1 653	7 978			2 201		10 179	11 832
Deferred tax assets	1 762		2 128	167			2 295	4 056
Total non-current assets	**376 038**	**8 806**	**-548**	**136 944**	**2 201**	**7 809**	**155 212**	**531 250**
Current assets								
Inventories	102 523							102 523
Trade and other receivables	150 350	152		829			981	151 331
Other current financial assets	1 595	111 820			332		112 152	113 746
Income tax receivable	3 693							3 693
Cash and short-term deposits	171 987	-120 626					-120 626	51 361
Total current assets	**430 148**	**-8 654**		**829**	**332**		**-7 493**	**422 655**
Total assets	**806 186**	**152**	**-548**	**137 773**	**2 533**	**7 809**	**147 719**	**953 904**
EQUITY AND LIABILITIES								
Equity								
Share capital	8 204							8 204
Other equity	589 351	129	-10 842	-614	2 026	5 758	-3 543	585 809
Equity attributable to equity holder of the parent	**597 555**	**129**	**-10 842**	**-614**	**2 026**	**5 758**	**-3 543**	**594 012**
Non-Controlling interest	391							391
Total equity	**597 946**	**129**	**-10 842**	**-614**	**2 026**	**5 758**	**-3 543**	**594 403**
Non-current liabilities								
Interest-bearing liabilities	7 497	-7 497		124 277			116 780	124 277
Other non-current financial liabilities	14							14
Provisions	16			2 423			2 423	2 439
Net employee defined benefit liabilities		7 578	10 294				17 871	17 871
Deferred tax liabilities	9 646				507	2 050	2 557	12 204
Total Non-current liabilities	**17 173**	**81**	**10 294**	**126 700**	**507**	**2 050**	**139 631**	**156 805**
Current liabilities								
Interest-bearing liabilities				11 688			11 688	11 688
Trade and other payables	189 806	-59					-59	189 747
Income tax payable	1 261							1 261
Total current liabilities	**191 067**	**-59**		**11 688**			**11 629**	**202 696**
Total equity and liabilities	**806 186**	**152**	**-548**	**137 773**	**2 533**	**7 809**	**147 719**	**953 904**

Consolidated balance sheet December 31, 2018

EUR 1 000	FAS 31 DECEMBER 2018	RECLASSIFI-CATION	GOODWILL	EMPLOYEE BENEFITS	LEASES	FINANCIAL INSTRU-MENTS	OTHER	TOTAL EFFECTS OF TRANSITION TO IFRS	IFRS 31 DECEMBER 2018
Assets									
Non-current assets									
Goodwill	52 471		16 502					16 502	68 973
Intangible assets	20 202	-1 888						-1 888	18 314
Tangible assets	198 085	-1 537			123 927		7 935	130 325	328 411
Shares in associated companies	68 170		7 043					7 043	75 212
Other receivables	3 645			-2 588	1 084			-1 504	2 142
Non-current financial assets	1 637	4 835				2 318		7 153	8 791
Deferred tax assets	1 349			2 407	429			2 836	4 185
Total non-current assets	**345 560**	**1 410**	**23 545**	**-181**	**125 440**	**2 318**	**7 935**	**160 467**	**506 028**
Current assets									
Inventories	95 468								95 468
Trade and other receivables	141 195	114			804			918	142 113
Other current financial assets	2 731	146 986				279		147 265	149 996
Income tax receivable	5 403								5 403
Cash and short-term deposits	213 917	-152 633						-152 633	61 284
Total current assets	**458 714**	**-5 533**			**804**	**279**		**-4 450**	**454 264**
Assets held for sale		4 237						4 237	4 237
Total assets	**804 275**	**114**	**23 545**	**-181**	**126 244**	**2 597**	**7 935**	**160 254**	**964 529**
Equity and liabilities									
Equity									
Share capital	8 204								8 204
Other equity	594 445	75	23 384	-11 799	-1 682	2 078	9 534	21 590	616 034
Equity attributable to equity holder of the parent	**602 649**	**75**	**23 384**	**-11 799**	**-1 682**	**2 078**	**9 534**	**21 590**	**624 237**
Non-Controlling interest	166						-3 675	-3 675	-3 509
Total equity	**602 815**	**75**	**23 384**	**-11 799**	**-1 682**	**2 078**	**5 859**	**17 915**	**620 727**
Non-current liabilities									
Interest-bearing liabilities	7 817	-7 817			113 236			105 419	113 236
Other non-current financial liabilities	66								66
Provisions	14				2 417			2 417	2 431
Net employee defined benefit liabilities		7 920		11 619				19 539	19 539
Deferred tax liabilities	9 593		160		1	519	2 077	2 757	12 350
Total Non-current liabilities	**17 490**	**103**	**160**	**11 619**	**115 654**	**519**	**2 077**	**130 132**	**147 623**
Current liabilities									
Interest-bearing liabilities					12 272			12 272	12 272
Trade and other payables	182 837	-64						-64	182 773
Income tax payable	1 133								1 133
Total current liabilities	**183 970**	**-64**			**12 272**			**12 208**	**196 178**
Total equity and liabilities	**804 275**	**114**	**23 545**	**-181**	**126 244**	**2 597**	**7 935**	**160 254**	**964 529**

2. CONSOLIDATION

2.1 GENERAL CONSOLIDATION PRINCIPLES

Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and all companies controlled by Paulig Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries, in which the parent company owns over 50% of the voting rights, either directly or indirectly, are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when this control ceases.

In the consolidated financial statements, all intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Acquired and established companies are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of acquisition cost over the fair value of net assets acquired is recognised as goodwill. Acquisition-related costs are expensed as incurred and included in administrative expenses. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Non-controlling interest

Non-controlling interest is presented within the equity in the consolidated balance sheet, separated from equity attributable to owners of the parent. Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 SUBSIDIARIES

31 DECEMBER 2019	GROUP OWNERSHIP %
In Finland	
Euroleasing Ltd	100
Gold&Green Foods Ltd	51.3
Gustav Paulig Ltd	100
Santa Maria Finland Ltd	100
Outside Finland	
AS Paulig Baltic, Estonia	100
AS Santa Maria, Estonia	100
Nordfalks AB, Sweden	100
NV Snack Food Poco Loco, Belgium	100
OOO Paulig RUS, Russia	100
OOO Kulma, Russia	100
Paulig Coffee A/S, Denmark	100
Paulig Coffee Estonia AS, Estonia	100
Paulig Coffee Latvia SIA, Latvia	100
Paulig Coffee Lietuva UAB, Lithuania	100
Paulig Coffee Norway AS, Norway	100
Paulig Coffee Sweden AB, Sweden	100
Poco Loco France SARL, France	100
Risenta AB, Sweden	100
Saffron Holding A/S, Denmark	100
Santa Maria A/S, Denmark	100
Santa Maria AB, Sweden	100
Santa Maria B.V., Netherlands	100
Santa Maria Norge AS, Norway	100
Santa Maria NV, Belgium	100
Santa Maria UK Ltd, United Kingdom	100
Sauerklee A/S, Denmark	100
Snack Food Poco Loco UK Ltd, United Kingdom	100
Taljegården Fastighets AB, Sweden	100

Robert Paulig Roastery Ltd was merged with Gustav Paulig Ltd in March 2018. During the year 2019 Risenta Norway AS was merged with Santa Maria Norge AS. All the companies involved in mergers are 100% owned subsidiaries of Paulig Group. In addition, a new company OOO Kulma was established in Russia during the year 2019.

2.3 NON-CONTROLLING INTEREST

At the year end 2019 the Group included one partly-owned subsidiary Gold&Green Foods Ltd with a non-controlling interest of 48.7%. Gold&Green Foods Ltd is known for its innovative plant based product pulled oats. Paulig Group has excercised its call option to purchase more shares in Gold&Green Foods Ltd. The Group's interest in Gold&Green increased to 87.67% in January 2020.

The financial information of Gold&Green Foods Ltd presented below are based on FAS financial statements and do not differ significantly from IFRS. Presented amounts correspond to the share held by non-controlling interest.

GOLD&GREEN FOODS LTD

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018
Proportion of shares held by non-controlling interest	**48.7%**	48.7%
Current assets	**1 018**	645
Non-current assets	**3 824**	4 109
Current liabilities	**1 810**	1 958
Non-current liabilities	**13 266**	9 266
Revenue	**2 416**	2 270
Loss for the financial year	**-3 764**	-3 674
Dividends paid to non-controlling interest	**0**	0

2.4 BUSINESS COMBINATIONS AND DISPOSALS

Business disposals

During the year 2019 Paulig Group sold its partly owned subsidiary Mode Cold Brew AB where Paulig held a 51% interest. In addition two subsidiaries Färska Örter på Neongatan AB and Bruce Foods Europe B.V. were liquidated during the year 2019. These two companies did not have any personnel or business operations. Liquidations did not have material impact on the Group financial information.

Business combinations

There have been no business combination in Paulig Group during financial years 2019 and 2018.

2.5 SHARES IN ASSOCIATED COMPANIES

§ Accounting principles

An associated company is a company where a Paulig Group company owns 20–50% of the shares and where the Group company has a significant influence over an investee but no control. The associated companies are included in the consolidated financial statements by using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. Dividends received from the associated companies are eliminated. Unrealized margins from business transactions between associated and Group companies are eliminated in proportion to share ownership. The Group's share of the net assets accumulated after the acquisition less any impairment is included in the acquisition cost of the associated company in the Group's retained earnings in the balance sheet. The Group's share of the results in the associated companies related to the core business are posted in the operating profit.

SHARES IN ASSOCIATED COMPANIES CONSIST OF FOLLOWING ITEMS:

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
FUCHS-Group*	**72 130**	75 212	75 461
Total	**72 130**	75 212	75 461

* Group's share of FUCHS-Group include goodwill amounting EUR 20.6 million.

Information on the Group's associate

The Group has a 25.01% interest in DF World of Spices GmbH, which is the parent company of the FUCHS-Group. The FUCHS-Group specialises in importing spice products to the delicatessen market and operates in both the food retail market as well as the industrial customer and large-scale consumer business. The FUCHS-Group is a privately owned group that is not listed on any public exchange. FUCHS-group prepares its consolidated financial statement in accordance with German GAAP. The goodwill depreciation which FUCHS has included in its financial statements is reversed in the profit for the year when Paulig Group's share of the result in FUCHS is accounted for. No other adjustments are made.

FUCHS-GROUP

EUR 1 000	2019	2018
Current assets	**263 642**	274 885
Non-current assets	**212 091**	222 082
Equity	**247 018**	260 744
Liabilities	**228 715**	236 223
Revenue	**522 157**	519 285
Profit for the financial year*	**-6 627**	4 747
Dividends received from the associate	**1 426**	1 526
Group's share in equity – 25.01% (2018: 25.01%)	**61 779**	65 212
Domicile	**Germany**	Germany

* Adjusted with EUR 2,0 million (2018: EUR 4,7 million) goodwill depreciation reversal to comply with IFRS.

3. FINANCIAL PERFORMANCE

3.1 REVENUE

§ Accounting principles

Paulig applies IFRS 15 Revenue from Contracts with Customers standard. Revenue from the sale of goods is recognised in the consolidated statement of income when the control and significant risks and rewards related to the ownership of the goods have been transferred to the customer. Control is seen to be transferred either at a point in time or over time. Revenue is recognised to the amount to which Paulig Group expects to be entitled in exchange for goods or services and to the extent that is highly probable that significant reversal will not occur. Revenue is measured as gross sales less indirect taxes, discounts and exchange rate differences.

Paulig Group companies manufacture and sell food products such as coffee, spices, plant-based products and snacks. Usually individual products or batches of products form a performance obligation and the revenue is recognised at a point in time, when the control of goods is transferred, generally based on delivery terms.

In addition Paulig Group also sells and leases coffee machines to workplace offices and shops including related maintenance services. Revenue from maintenance services is recognised over time, when the service is completed. Revenue from the sales of coffee machines are recognised at a point in time when delivered.

Revenues from licenses and royalties are recognized when the subsequent sale in entered as income. Lease income from coffee machine leases is recognised according to IFRS 16 Leases standard and included in the revenue in the consolidated statement of income (see note 4.4 Leases).

Customer contracts may include terms related to customer rebates, right to return delivered goods and penalties if certain service level is not met. These terms give rise to variable consideration and are recorded to their most likely amount. Paulig Group considers whether the variable amount shall be allocated entirely to one performance obligation or to a distinct good or service that forms part of a single performance obligation. Revenue will be recognised to the extent that Paulig is entitled to the consideration. Contract terms do not contain significant financing component as all the payment terms are under 1 year.

The Group exercises the practical exemption provided in IFRS 15 and does not disclose any outstanding performance obligations on the reporting date related to contracts with a maximum duration of one year.

EUR 1 000	2019	2018
Revenue by market area		
Nordic countries	**498 958**	523 145
Continental Europe	**245 105**	210 307
United Kingdom and Ireland	**54 144**	61 487
Baltic countries	**58 174**	57 386
Russia	**57 859**	50 925
Other countries	**7 152**	4 996
Total *	**921 392**	908 246
Revenue by Business area		
Scandinavia & Central Europe	**276 632**	283 282
Finland & Baltics	**301 738**	310 617
East	**62 626**	53 089
Customer Brands	**267 403**	251 282
Other	**12 993**	9 976
Total*	**921 392**	908 246
Timing of revenue recognition		
At a point in time	**915 233**	902 478
Over time	**6 159**	5 768
Total*	**921 392**	908 246

* Revenue includes EUR 0.8 million (2018: EUR -0.1 million) realised exchange rate differences and EUR -0.1 million (2018: EUR 0.1 million) unrealised exchange rate differences.

Paulig Group business is divided into four business areas: Finland & Baltics, Scandinavia & Central Europe, East and Customer Brands. Paulig Group operates in 13 countries with largest markets in Northern Europe, the UK, the Baltics and Russia. Goods are sold under brands Paulig, Santa Maria, Risenta, Gold&Green and Poco Loco which are sold in Retail and Out-of-home market. Also coffee related equipment and maintenance services are sold under Paulig brand.

Paulig coffee brands hold a strong market position in Finland and the Baltics. In Russia Paulig is the second largest supplier of roasted coffee. Santa Maria is the leading seasoning brand on the Nordic market. Product concepts are Spices, Tex Mex, Thai Food, Indian Food and BBQ. The Risenta portfolio holds products with Breakfast, Seeds & Kernels, Cooking, Baking and Fuelling. Paulig Customer Brands Business Area is known for the Poco Loco brand and for the excellent know-how in private label manufacturing. Brand Gold&Green stands for pulled oats which is completely plant-based food product. Gold&Green is not part of any business area and the revenue is presented as part of the line "Other" in the table Revenue by Business area.

Paulig debt or equity instruments are not traded in a public market thus IFRS 8 Operating Segments is not applied and segment information is not presented.

3.2 OTHER OPERATING INCOME

EUR 1 000	2019	2018
Sale of tangible assets *	**15 153**	73
Other income	**907**	1 351
Total	**16 060**	1 424

* More information available in note 5.4 Assets held for sale.

3.3 MATERIALS AND SERVICES

EUR 1 000	2019	2018
Materials and services		
Purchases during reporting period	**522 781**	468 566
Change in inventories	**-40 534**	4 507
External services	**19 486**	13 877
Total *	**501 733**	486 949

* Materials and services include EUR -2.7 million (2018: EUR -1.1 million) realised exchange rate differencies and EUR -0.4 million (2018: EUR 0.5 million) unrealised exchange rate differencies.

3.4 EMPLOYEE BENEFIT EXPENSES AND NUMBER OF EMPLOYEES

EUR 1 000	2019	2018
Salaries and remuneration for Managing Directors and the members of the Board of Directors	**997**	1 017
Wages and salaries	**94 638**	95 024
Pension expenses – defined contribution plans	**8 449**	8 139
Pension expenses – defined benefit plans	**2 161**	2 118
Other personnel expenses	**26 144**	22 158
Total	**132 389**	128 456
Average number of employees		
Nordic countries	**964**	1 008
Central Europe	**634**	596
United Kingdom and Ireland	**118**	125
Baltic countries	**203**	219
Russia	**196**	192
Total	**2 115**	2 140

3.5 OTHER OPERATING EXPENSES

EUR 1 000	2019	2018
Energy	**8 009**	7 434
Rents and leases	**6 835**	4 079
Sales freights and logistics	**34 403**	21 646
External services	**21 935**	29 289
Marketing activities	**50 518**	44 749
Other expenses	**42 769**	70 947
Total	**164 469**	178 144

AUDITOR'S FEES

EUR 1 000	2019	2018
Audit	**383**	425
Tax services	**121**	50
Other services	**111**	71
Total	**615**	546

3.6 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME

EUR 1 000	2019	2018
Dividend income	**165**	151
Interest income derivatives	**2 769**	2 766
Interest income other	**2 968**	779
Exchange rate gains and losses derivatives	**-1 955**	-1 979
Exchange rate gains and losses other	**2 166**	1 996
Financial income on derivatives	**1 488**	3 059
Other financial income	**825**	38
Total	**8 426**	6 810

FINANCIAL EXPENSES

EUR 1 000	2019	2018
Interest expenses derivatives	**3 008**	2 880
Interest expenses other	**544**	480
Interest on lease liability	**4 299**	4 433
Financial expenses on derivatives	**2 492**	747
Other financial expenses	**1 596**	531
Total	**11 939**	9 071
Financial income and expenses, net	**-3 513**	-2 262

Group's hedge accounting effectiveness testing was found to be effective thus no inefficiency is included in the financial items for 2019 nor 2018.

Exchange rate gains and losses in financial income consist of EUR 10.5 million (2018: EUR 20.5 million) realised exchange rate gains, EUR 105.3 million euro (2018: EUR 141 million) unrealised exchange rate gains, EUR 12.3 million (2018: EUR 19.8 million) realised exchange rate losses and EUR 103.2 million (2018: EUR 141.6 million) unrealised exchange rate losses.

3.7 INCOME TAXES

§ Accounting principles

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. Current tax is calculated from each group company's taxable profit by using the valid tax rate of each country.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are in force at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Critical accounting judgements and estimates

Deferred tax asset is recognised to the extent that realisation of the related tax benefit through future profits is probable. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

INCOME TAXES RECOGNISED IN PROFIT OR LOSS

EUR 1 000	2019	2018
Current tax for the reporting year	**-20 990**	-17 364
Current tax adjustments for prior years	**182**	261
Changes in deferred taxes	**579**	-257
Total	**-20 229**	**-17 361**

RECONCILIATION BETWEEN INCOME TAX EXPENSE IN PROFIT OR LOSS AND TAX EXPENSE CALCULATED BY THE FINNISH TAX RATE

EUR 1 000	2019	2018
Profit before tax	**71 845**	71 679
Tax calculated using Finnish tax rate 20%	**-14 369**	-14 336
Effect of tax rate in foreign subsidiaries	**-1 363**	-1 307
Non-deductible expenses	**-1 709**	-687
Tax-free income	**671**	2
Current tax adjustments for prior years	**0**	479
Effect of current year losses	**-2 584**	-1 875
Other differences	**-5**	2
Previous years taxes	**182**	261
Changes in deferred taxes	**579**	-257
Effect of consolidation entries	**-1 631**	358
Income taxes in the statement of comprehensive income	**-20 229**	-17 361
Effective tax rate %	**28.2%**	24.2%
Other comprehensive income		
Tax effects in other comprehensive income	**881**	-273
Total	**-19 348**	-17 634

Changes in deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets and liabilities are determined in accordance with that country specific corporate tax rate.

At 31 December 2019 there is a total of EUR 24.2 million (2018: EUR 16.6 million) tax losses carried forward in the Group. The tax losses carried forward mainly relate to Gold&Green Foods Ltd. The expiry dates for these vary between 2025 and 2029 for EUR 21.9 million. The remaining EUR 2.3 million derives from UK business losses for which there is no expiration date. Deferred tax assets have not been recognised in respect of these losses as there is uncertainty regarding the probability of whether future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. If the Group was able to recognise all unrecognised deferred tax assets, the profit would increase by EUR 4.8 million (2018: EUR 3.3 million).

No deferred tax liability has been recognised for undistributed earnings of subsidiaries where income tax would be payable upon distribution.

2019 EUR 1 000	1 JANUARY 2019	RECOGNISED THROUGH PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	EXCHANGE RATE DIFFERENCES	31 DECEMBER 2019
Deferred tax assets					
Tangible and intangible assets	429	295			**724**
Employee benefits	2 807	-281	1 084		**3 610**
Inventory	115	1		-2	**115**
Other temporary differences	834	59		85	**977**
Total deferred tax assets	**4 185**	**74**	**1 084**	**83**	**5 425**
Deferred tax liabilities					
Tangible and intangible assets	7 556	392		2	**7 950**
Financial assets	519	155	202		**877**
Depreciation difference and optional provisions	3 947	-1 057		-111	**2 780**
Other temporary differences	328	55		14	**397**
Total deferred tax liabilities	**12 350**	**-455**	**202**	**-94**	**12 004**

2018 EUR 1 000	1 JANUARY 2018	RECOGNISED THROUGH PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	EXCHANGE RATE DIFFERENCES	31 DECEMBER 2018
Deferred tax assets					
Tangible and intangible assets	241	191		-3	429
Employee benefits	2 674	-43	247	-71	2 807
Internal margins	122	-2		-4	115
Other temporary differences	1 020	-82		-104	834
Total deferred tax assets	**4 056**	**64**	**247**	**-183**	**4 185**
Deferred tax liabilities					
Tangible and intangible assets	7 422	130		4	7 556
Financial assets	507	-11	23		519
Depreciation difference and optional provisions	4 137	-22		-168	3 947
Other temporary differences	138	209		-20	328
Total deferred tax liabilities	**12 204**	**306**	**23**	**-183**	**12 350**

4. INTANGIBLE AND TANGIBLE ASSETS AND LEASES

4.1 INTANGIBLE ASSETS

§ Accounting principles

Intangible asset is recognized in the balance sheet at original cost if it can be reliably measured and it is probable that the economic benefits attributable to the asset will flow to the Group. The useful life of intangible asset are assessed as either definite or indefinite. Intangible assets with definite useful life are depreciated with straight-line method over a useful life of 3–10 years. Intangible assets with indefinite useful life are not amortised but are tested for impairment.

Depreciations of intangible assets begins when the asset is available for use, i.e. when it is in such a location and condition that it is capable of operating in the manner intended by the management.

The depreciation method, residual values and useful lives of assets are reviewed and adjusted where appropriate at each balance sheet date. The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Gains and losses on the disposal of intangible asset are recognised in profit or loss in other operating income or expenses. The impairment loss is recognised in profit or loss in depreciation, amortisation and impairment losses.

Research and development expenses are mainly expensed as incurred. In significant product development projects for which Paulig Group can reliably demonstrate that they will generate probable future economic benefits, the expenses related to development phase can be capitalized and recognised as intangible assets.

EUR 1 000	GOODWILL	INTANGIBLE RIGHTS	OTHER-LONG-TERM EXPENDITURE	TOTAL
Acquisition cost 1 January 2019	68 973	27 797	25 320	**122 090**
Exchange rate differences	-870	-253	-224	**-1 347**
Additions		531	670	**1 201**
Disposals	-351	-1 697	234	**-1 814**
Transfers		-27	3	**-24**
Acquisition cost 31 December 2019	67 752	26 351	26 003	**120 106**
Accumulated amortisation and impairment losses 1 January 2019		-25 582	-9 223	**-34 805**
Exchange rate differences		262	54	**316**
Depreciation on disposals and transfers		1 723	716	**2 439**
Depreciation for the reporting period		-692	-4 502	**-5 194**
Impairment	-5 609			**-5 609**
Accumulated amortisation and impairment losses 31 December 2019	-5 609	-24 289	-12 955	**-42 853**
Carrying amount 1 January 2019	**68 973**	**2 215**	**16 099**	**87 285**
Carrying amount 31 December 2019	**62 143**	**2 062**	**13 048**	**77 253**
Acquisition cost 1 January 2018	71 085	36 127	23 452	**130 664**
Correction to opening balance		-14		**-14**
Exchange rate differences	-2 112	-748	-561	**-3 421**
Additions		1 129	3 011	**4 140**
Disposals		-8 523	-582	**-9 105**
Transfers		-174		**-174**
Acquisition cost 31 December 2018	68 973	27 797	25 320	**122 090**
Accumulated amortisation and impairment losses 1 January 2018		-34 277	-5 899	**-40 176**
Correction to opening balance		14		**14**
Exchange rate differences		748	142	**890**
Depreciation on disposals and transfers		8 672	582	**9 254**
Depreciation for the reporting period		-739	-4 048	**-4 787**
Accumulated amortisation and impairment losses 31 December 2018		-25 582	-9 223	**-34 805**
Carrying amount 1 January 2018	**71 085**	**1 850**	**17 553**	**90 488**
Carrying amount 31 December 2018	**68 973**	**2 215**	**16 099**	**87 285**

4.2 GOODWILL AND IMPAIRMENT TESTING

§ Accounting principles

Goodwill arising from the business combinations is the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Separately recognized goodwill is tested for impairment annually and recognised at cost, less accumulated impairment losses.

The impairment testing is done annually and whenever there is an indication that the value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Paulig Group has determined the recoverable amount by using the value in use method. The discount rates used in impairment testing of goodwill represent the WACC specified for the business area in question pre-tax and reflects the time value of the money and asset specific risks. Impairment loss identified is recognised in the profit and loss in depreciation, amortisation and impairment losses and is never reversed.

Critical accounting judgements and estimates

The recoverable amounts of cash generating units have been determined by using value in use calculations in the Group. The use of estimates are required in the preparation of these calculations. Estimates are based on budgets and forecasts which contain some degree of uncertainty. The main uncertainties relates to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The Group performed impairment test at the date of transition to IFRS 1 January 2018 and the annual impairment test in December 2018 and 2019. For the purpose of impairment testing, goodwill acquired in a business combination was allocated to Paulig Coffee division, Paulig Foods Division, Paulig Snack Food Division and Gold&Green Foods Ltd which was the organisation structure during the year 2018.

Organization structure was changed 1st of June 2019 and also the level at which the goodwill is monitored for internal management purposes was changed. CGUs for 2019 yearly testing were Business areas Finland & Baltics, Scandinavia & Central Europe, Customer Brands and Gold&Green Foods Ltd as shown in the below chart.

CARRYING AMOUNT OF GOODWILL ALLOCATED TO EACH OF THE CGUS

EUR 1 000 CASH GENERATING UNITS	31 DECEMBER 2019 GOODWILL	31 DECEMBER 2019 DISCOUNT RATE % (WACC)	1 JANUARY 2019 GOODWILL
BA Finland & Baltics	8 184	4.7	8 184
BA Scandinavia & Central Europe	50 134	4.5	51 389
BA Customer Brands	3 825	4.8	3 825
Gold&Green Foods Ltd	0	8.9	5 576
Total	**62 143**		**68 973**

EUR 1 000 CASH GENERATING UNITS	31 DECEMBER 2018 GOODWILL	31 DECEMBER 2018 DISCOUNT RATE % (WACC)	1 JANUARY 2018 GOODWILL	1 JANUARY 2018 DISCOUNT RATE % (WACC)
Paulig Coffee Division	8 569	5.7	8 584	5.5
Paulig Foods Division	51 004	5.6	53 101	5.6
Paulig Snack Food Division	3 825	5.8	3 825	5.8
Gold&Green Foods Ltd	5 576	17.0	5 576	7.3
Total	**68 973**		**71 085**	

The recoverable amount for the CGUs has been determined based on value in use calculations using cash flow projections covering five-year period added with a terminal year. As an exception CGU Gold&Green Foods Ltd for which cash flow projections cover ten-year period added with a terminal year. A longer calculation period than the five-years set by IAS 36 has been applied to take into account the expected growth after the company’s current start-up phase. For each CGU cash flows calculations are based on 3 year business plan approved by the Board of Directors. Cash flow projections have been prepared by using compound annual growth rate determined in the business plan. For terminal year, growth rate 1.5% is used which is the median growth rate among peer group.

Discount rate, which is determined using the weighted average cost of capital, is based on the optimal finance structure or the average finance structure of industry peers (reflects the total cost of equity and debt). The components of the discount rate are risk free long-term government bond yields rates, market and company specific risk premium, debt to equity ratio and cost of debt.

Sensitivity to changes in assumptions

For BA Finland & Baltics CAGR-% used in cash flow projection is 3.98% reflecting expected growth in sales mainly through categories premium coffee and Tex Mex. Recoverable amount for BA Finland & Baltics is well above the carrying value of assets. Based on sensitivity analysis, the headroom turned negative when EBITDA was decreased by 56% of the planned level or discount rate was increased to 28.9%.

For BA Scandinavia & Central Europe CAGR-% used in cash flow projection is 4.33% reflecting expected growth in sales of Tex Mex products. Based on sensitivity analysis, the headroom turned negative when EBITDA was decreased by 10% of the planned level or discount rate was increased to 5.6%.

For BA Customer Brands CAGR-% used in cash flow projection is 3.33% reflecting increased demand for private label products. Recoverable amount for BA Customer Brands is well above the carrying value of assets. Based on sensitivity analysis, the headroom turned negative when EBITDA was decreased by 29% of the planned level or discount rate was increased to 12.4%.

In the impairment tests at the date of transition to IFRS 1 January 2018 and at the annual impairment test in December 2018 for Gold&Green Foods Ltd, value in use calculation reflected expected increase in demand of pulled oats products domestically and internationally. Due to the high expectations in sales growth recoverable amount for Gold&Green Foods Ltd was well above the carrying value of assets and no impairment was recorded at the time. At the year end 2019 management exercised discretion when testing Gold&Green Foods Ltd goodwill for impairment by using weaker sales and profitability growth estimations than earlier years. As a result an impairment loss of EUR 5.6 million was recognised in the income statement in December 2019 leaving no goodwill related to CGU Gold&Green Foods Ltd in the Group.

4.3 TANGIBLE ASSETS

§ Accounting principles

Tangible assets are measured at historical cost in the balance sheet, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The depreciable amount of an asset is allocated on a systematic basis over its useful life. Each part of an item of tangible asset with a cost that is significant in relation to the total cost of the item is depreciated separately. Land areas are not depreciated. Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

- Buildings and constructions 25 years
- Machinery and equipment 3–10 years
- Other tangible assets 3–10 years

Depreciations commence when the asset is available for use i.e. when it is in a location and condition that it can operate as intended by the management.

The depreciation method, residual values and useful lives of assets are reviewed and adjusted where appropriate at each balance sheet date. The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Gains and losses on the disposal of tangible asset are recognised in profit or loss in other operating income or expenses. The impairment loss is recognised in profit or loss in depreciation, amortisation and impairment losses.

Accounting principles for right-of-use assets are described in note 4.4. Leases.

TANGIBLE ASSETS

EUR 1 000	LAND AND WATER	BUILDINGS AND CONSTRUCTIONS	MACHINERY AND EQUIPMENT	ADVANCE PAYMENTS AND WORK IN PROGRESS	TOTAL
Acquisition cost 1 January 2019	16 990	211 293	337 765	6 753	**572 801**
Exchange rate differences	46	189	1 017	132	**1 384**
Additions	7 684	5 181	18 149	8 896	**39 910**
Disposals	-5 448	-1 261	-22 524		**-29 233**
Transfer to assets held for sale	-3 783				**-3 783**
Transfers		379	2 711	-3 066	**24**
Acquisition costs 31 December 2019	15 489	215 781	337 118	12 715	**581 103**
Accumulated depreciation and impairment losses 1 January 2019		-38 472	-205 916		**-244 388**
Exchange rate differences		-222	-905		**-1 127**
Accumulated depreciation on disposals		114	22 104		**22 218**
Depreciation for the reporting period		-13 701	-26 114		**-39 815**
Impairment			-11 228		**-11 228**
Transfers			-26		**-26**
Accumulated depreciation and impairment losses 31 December 2019		-52 281	-222 085		**-274 366**
Carrying amount 1 January 2019	**16 990**	**172 821**	**131 849**	**6 753**	**328 411**
Carrying amount 31 December 2019	**15 489**	**163 500**	**115 033**	**12 715**	**306 736**
Acquisition cost 1 January 2018	21 288	207 098	327 519	47 462	**603 367**
Correction to opening balance			-127		**-127**
Exchange rate differences	-77	-3 958	-3 757	-496	**-8 288**
Additions	16	2 079	26 317	2 369	**30 781**
Disposals		-6 544	-42 041		**-48 585**
Transfer to assets held for sale	-4 237				**-4 237**
Transfers		12 618	29 854	-42 582	**-110**
Acquisition costs 31 December 2018	16 990	211 293	337 765	6 753	**572 801**
Accumulated depreciation and impairment losses 1 January 2018		-31 979	-224 923		**-256 902**
Correction to opening balance			127		**127**
Exchange rate differences		395	2 429		**2 824**
Depreciation on disposals		6 486	41 898		**48 384**
Depreciation for the reporting period		-13 374	-25 298		**-38 672**
Transfers			-149		**-149**
Accumulated depreciation and impairment losses 31 December 2018		-38 472	-205 916		**-244 388**
Carrying amount 1 January 2018	**21 288**	**175 119**	**102 596**	**47 462**	**346 467**
Carrying amount 31 December 2018	**16 990**	**172 821**	**131 849**	**6 753**	**328 411**

RIGHT-OF-USE ASSET INCLUDED IN TANGIBLE ASSETS

EUR 1 000	BUILDINGS AND CONSTRUCTIONS*	MACHINERY AND EQUIPMENT	TOTAL
Acquisition cost 1 January 2019	128 080	9 126	**137 206**
Exchange rate differences	-655	79	**-576**
Additions	2 203	3 999	**6 202**
Disposals	-238	-576	**-814**
Acquisition costs 31 December 2019	129 390	12 628	**142 018**
Accumulated depreciation and impairment losses 1 January 2019	-10 619	-2 660	**-13 279**
Exchange rate differences	-36	-47	**-83**
Accumulated depreciation on disposals	103	261	**364**
Depreciation for the reporting period	-9 989	-3 284	**-13 273**
Accumulated depreciation and impairment losses 31 December 2019	-20 541	-5 730	**-26 271**
Carrying amount 1 January 2019	**117 461**	**6 466**	**123 927**
Carrying amount 31 December 2019	**108 849**	**6 898**	**115 747**
Acquisition cost 1 January 2018	129 753	5 839	**135 592**
Exchange rate differences	-2 344	-134	**-2 478**
Additions	671	3 421	**4 092**
Acquisition costs 31 December 2018	128 080	9 126	**137 206**
Accumulated depreciation and impairment losses 1 January 2018	-782		**-782**
Exchange rate differences	2	17	**19**
Depreciation for the reporting period	-9 839	-2 677	**-12 516**
Accumulated depreciation and impairment losses 31 December 2018	-10 619	-2 660	**-13 279**
Carrying amount 1 January 2018	**128 971**	**5 839**	**134 810**
Carrying amount 31 December 2018	**117 461**	**6 466**	**123 927**

* Land areas included in the lease contracts of building and constructions are not material part of the contract and therefore are included in the right-of-use asset of underlying building or construction.

4.4 LEASES

§ Accounting principles

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paulig group leases mainly consists of leased premises and machinery and equipment, such as cars and production equipment. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use).

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, estimate of costs to be incurred by Paulig in restoring the assets to the condition required by the terms and conditions of the lease, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. The Group's right-of-use assets and changes are presented in tangible assets, see note 4.3 Tangible assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily available. The incremental borrowing rate has been defined separately for each group company and with consideration to company-specific, geographical and currency risks. Average incremental borrowing rate for the Paulig Group was approximately 2.1% during the financial year 2019. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group's lease liabilities are included in interest-bearing liabilities, see note 5.7 Interest-bearing liabilities.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. Rental income arising from operating lease is accounted for on a straight-line basis over the lease term and is included either in revenue or in other operating income in the statement of profit or loss based on its operating nature. A lessor shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

Critical accounting judgements and estimates

Paulig Group has lease contracts with indefinite lease term and contracts which included extension/termination option rights. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension or termination option.

GROUP AS A LESSEE

RIGHT-OF-USE ASSETS INCLUDED IN TANGIBLE ASSETS

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Buildings and constructions	**108 849**	117 461	128 971
Machinery and equipment	**6 898**	6 466	5 839
Total	**115 747**	123 927	134 810

LEASING LIABILITY INCLUDED IN THE INTEREST-BEARING LIABILITIES AND THE MOVEMENTS DURING THE PERIOD

EUR 1 000	CURRENT LEASE LIABILITY	NON-CURRENT LEASE LIABILITY
As at 1 January 2018	**11 688**	**124 277**
New contracts	1 094	2 977
Changes to contracts	-15	34
Cash flows	-11 976	0
Reclassification between short-term and long-term liabilities	11 481	-14 053
Exchange rate differences		
As at 31 December 2018	**12 272**	**113 236**
New contracts	1 250	3 224
Changes to contracts	324	2 154
Cash flows	-13 376	0
Reclassification between short-term and long-term liabilities	12 381	-13 118
Exchange rate differences		
As at 31 December 2019	**12 851**	**105 496**

The most significant individual lease agreement in the Group is the rent agreement over coffee roastery in Helsinki. The right-of-use asset recognised for the roastery amounted EUR 59.9 million as of 1 January 2018 including EUR 1.5 million provision related to the obligation to restore premises and land areas after lease period ending 31 December 2049. Corresponding lease liability amounted EUR 61.4 million.

AMOUNTS RECOGNISED IN PROFIT OR LOSS

EUR 1 000	2019	2018
Depreciation expense of right-of-use assets	**13 273**	12 516
Interest expenses on lease liabilities	**4 299**	4 433
Expenses – short-term leases	**624**	593
Expenses – leases of low-value assets	**779**	672
Total amount recognised in profit or loss	**18 975**	18 214

There were no lease expenses relating to variable lease payments not included in lease liabilities during the years 2018 and 2019.

GROUP AS LESSOR

FINANCE LEASE RECEIVABLES

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Non-current	**377**	1 084	1 967
Current	**1 123**	804	829
Total	**1 500**	1 888	2 796

MATURITY OF RENTALS RECEIVABLE AS OF 31 DECEMBER 2019

EUR 1 000	< 1 YEAR	1–5 YEARS	> 5 YEARS	TOTAL
Finance lease receivables	1 123	377	0	1 500
Operating lease receivables	738	0	0	738
Total	**1 861**	**377**	**0**	**2 238**

AMOUNTS RECOGNISED IN PROFIT OR LOSS

EUR 1 000	2019	2018
Operating lease income	**1 616**	1 597
Interest income on finance leases	**20**	22
Total amount recognised in profit or loss	**1 636**	1 619

Operating lease income in Paulig Group consists of mainly income from coffee machine leases which is included in the Revenue in the comprehensive income statement.

5. OPERATIONAL ASSETS AND LIABILITIES

5.1 INVENTORY

§ Accounting principles

Inventories include materials and supplies, unfinished and finished goods. Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis or alternatively weighted average cost or standard cost method where it approximates FIFO
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

A net realizable values is the estimated selling price in the ordinary course of business less the estimated costs of the completion of the product and the cost of sale.

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Materials and consumables	**66 289**	40 381	47 033
Work in progress	**1 153**	1 232	1 936
Finished goods	**64 923**	57 874	53 758
Provision for obsolete inventory	**-2 393**	-4 019	-204
Total	**129 972**	95 468	102 523

5.2 TRADE AND OTHER RECEIVABLES

§ Accounting principles

Trade receivables are usually receivables from the sale of goods, products and services of the normal business of the company. Also lease receivables and receivables from the sale of non-current assets and investments are reported as trade receivables. Customer payment terms vary from 30 to 90 days from the delivery. Trade and other receivables are recognised initially at the original invoice amounts and subsequently valued at amortised cost.

For trade receivables, the Group applies a simplified approach in calculating expected credit losses (ECL). The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

TRADE AND OTHER RECEIVABLES IN CURRENT ASSETS

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Trade receivables	**121 554**	131 885	136 737
Receivables from associated companies	**192**	0	154
Allowance for expected credit losses	**-420**	-239	-124
Total trade receivables	**121 326**	131 646	136 767
Other receivables	**15 895**	10 467	14 564
Total trade and other receivables	**137 221**	142 113	151 331

Group Companies are responsible for the credit risk arising from business operations. Each Group Company is responsible for managing and analysing the credit risk of both existing and potential new clients. Risk control is based on assessing the credit quality of the customer, taking into account the financial position, past experience and performance as well as forward looking macroeconomic factors. Credit insurances are used in Business Area Customer Brands and in Business Area East. Actual credit losses recognised were less than 0.01% out of total net sales during financial years 2019 and 2018. Also majority of the Group's customers are major retailers with very low risk of insolvency. Based on historical loss rate and customer credit risk analyses, and due to the credit insurances covering 40% of the Group's trade receivables at the year end 2019 (2018: 37%) the risk of material credit losses is deemed to be very low. Expected credit losses for year end 2019 amounted to EUR 0.4 million (2018: EUR 0.2 million). Due to the immaterial amount of expected credit losses no separate provision matrix of allocating the amount to days past due is presented.

SPECIFICATION FOR OTHER RECEIVABLES IN CURRENT ASSETS

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
VAT receivable	**3 719**	3 599	5 923
Finance lease receivable	**1 123**	804	829
Derivative instruments	**2 667**	2 748	2 140
Employee benefits	**523**	565	452
Other receivables	**7 863**	2 751	5 220
Total other receivables	**15 895**	10 467	14 564

OTHER RECEIVABLES IN NON-CURRENT ASSETS

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Finance lease receivable	**377**	1 084	1 967
Other receivables	**747**	1 058	977
Total other receivables	**1 124**	2 142	2 944

5.3 CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits in the statement of financial position comprise cash at banks on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Due to the short maturity period expected credit losses are not presented. For more information related to financial assets classification and financial risk management see notes 6.2 and 6.3.

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Cash and bank	**70 436**	31 166	31 277
Short-term deposits	**10 118**	30 118	20 085
Total	**80 554**	61 284	51 361

5.4 ASSETS HELD FOR SALE

§ Accounting principles

The Group classifies non-current assets and disposal groups as assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Tangible and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as assets held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

ASSETS HELD FOR SALE

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Land areas	**3 783**	4 237	0
Total	**3 783**	4 237	0

LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Advance payments related to assets held for sale	**4 250**	0	0
Total	**4 250**	0	0

Paulig Group has entered into land use agreements over old roastery land areas in Vuosaari, Helsinki. These include agreement for exchange of land with City of Helsinki and co-operation agreement with real estate investment company to sell combined real estates to a third party. The remaining land areas are sold in different stages during the years 2019–2022. The land areas which have been sold during the year 2019 have been classified as assets held for sale at the end of year 2018. Paulig group gained EUR 14.7 million profit for the sales of land areas during year 2019. The land areas for which the sell is highly probably during the year 2020 are classified as assets held for sale at the end of year 2019. The expected sales price approximate EUR 15.4 million with a expected profit of EUR 11.6 million. The land areas are measured at their carrying amounts.

5.5 TRADE AND OTHER PAYABLES

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Trade payables	**133 675**	119 945	134 279
Other payables	**67 841**	62 828	55 468
Total	**201 516**	182 773	189 747

SPECIFICATION FOR OTHER PAYABLES IN CURRENT LIABILITIES

Accrued personnel expenses	**17 687**	17 980	18 339
Contract liabilities	**18 905**	19 110	14 680
VAT payables	**5 691**	4 362	2 436
Derivative instruments	**9 555**	1 089	2 014
Other	**16 003**	19 919	17 999
Total	**67 841**	62 828	55 468

5.6 PROVISIONS

§ Accounting principles

A provision is recognized in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the obligation will result in payment, and the amount of payment can be estimated reliably. Provisions can arise from environmental risks, litigation, restructuring plans or onerous contracts. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. For the calculation of the present value, the chosen discount rate is one that reflects the time value of money and the risks specific to the obligation.

Critical accounting judgements and estimates

The existence of criteria for recognizing provisions and the amounts of provisions are determined based on estimates. The amount to be recorded is the best estimate of the cost required to settle the obligation at the reporting date or transfer to a third party. The estimate of the financial impact of the past event requires management judgement, which is based on similar events occurred in the past, and where applicable, the opinion of external experts.

EUR 1 000	DISMANTLING OF LEASED PREMISES	OTHER	TOTAL
1 January 2019	**2 417**	**14**	**2 431**
Exchange rate difference	47	0	
31 December 2019	**2 464**	**14**	**2 478**

The most significant provisions in the consolidated statement of financial position relate to contractual obligation to restore premises and land areas after lease period. Dismantling of leased premises provisions are based on management's best estimate of remediation costs.

5.7 INTEREST-BEARING LIABILITIES

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Non-current liabilities			
Lease liabilities	**105 496**	113 236	124 277
Total	**105 496**	113 236	124 277
Current liabilities			
Lease liabilities	**12 851**	12 272	11 688
Total	**12 851**	12 272	11 688

Paulig Group interest-bearing liabilities consist of lease liabilities. Accounting principle for lease liabilities is described in note 4.4 Leases. Maturity of lease liability is presented in note 6.3 Financial risk management.

5.8 PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

§ Accounting principles

The Group has pension schemes in different countries, which are generally funded through insurance companies. Pension cover is based on the legislation and agreement in force in each country. Pension schemes consist of both defined benefit and defined contribution plans. Finnish statutory pensions are accounted for as a defined contribution plan in the consolidated financial statements.

Short-term employee benefits

The Group recognises short-term employee benefits as an expense to profit or loss. The expense recognised is the undiscounted amount of short-term employee benefits expected to be paid in exchange for employee's service rendered during an accounting period.

Defined contribution plans

Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. In defined contribution plans, the Group has no legal or contractive obligations to pay further contributions in case the payment recipient is unable to pay the retirement benefits. All arrangements that do not fulfil these conditions are considered defined benefit plans.

Defined benefit plans

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The defined benefit obligation represents the present value of future cash flows from payable benefits, which are calculated annually by independent actuaries using the projected unit credit method. The discount rate assumed in calculating the present value of the pension obligation is based on the market yield of high-quality corporate bonds with appropriate maturities.

The liability or asset recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting period closing date less fair value of plan assets.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Pension costs are recognized in the consolidated statement of income so as to spread the current service cost over the service lives of employees based on actuarial calculations. The net interest is included as part of the employee benefit expenses in the consolidated statement of income.

Other long-term employee benefits

Other long-term employee benefits are long-service remunerations, which are accounted for as an unfunded defined benefit plan in accordance to IAS 19. The liability or asset recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting period closing date less fair value of plan assets. The service cost, net interest and remeasurements are all recognised in the consolidated statement of income.

Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment. The Group recognises a liability and expense for termination benefits at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

Critical accounting judgements and estimates

The present value of defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, employee service life and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

DEFINED EMPLOYEE BENEFIT ASSETS AND LIABILITIES

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Voluntary Insurance plan in Finland	**523**	342	254
Post-employment benefit plan Belgium	**9**	11	14
Jubilee plans	**1 988**	1 866	1 739
ITP2 pension plan in Sweden	**23 271**	17 320	15 864
Total defined benefit liability (+)/asset (-)	**25 791**	19 539	17 871

Voluntary Insurance Plan in Finland

A group of employees is covered by a defined benefit pension plan in Finland. The plan is a final average pay pension plan concerning additional pensions. The benefits are insured with an insurance company. The plan provides an old age benefit to complement the statutory old age pension. The level of additional old age pension and the retirement age is agreed in the contract between the employer and the insurance company.

Post-employment benefit plan Belgium

Paulig also have post-employment benefit plan in Belgium. The benefits include both defined benefit (DB) and defined contribution (DC) parts as defined in IAS 19.

ITP2 pension plan in Sweden

The unfunded book-reserved obligations in Sweden are mainly lifelong retirement pensions within the ITP 2-plan. The benefits in the lifelong pensions are established by different percentages in different salary intervals. If the expected years of service, within the plan and irrespective of employer, is less than 30 years, benefits will be reduced proportionally. Increase in net defined benefit liability during the year 2019 is mainly due to the drop in discount rate.

Jubilee plans

Paulig has Jubilee plans in Finland and in Estonia which are classified as defined benefit plans under IAS 19. Employees have possibility to earn extra vacation days based on the length of their employment. Alternatively an employee can choose to have the earned benefit paid as a salary.

NET BENEFIT EXPENSE (RECOGNISED IN PROFIT OR LOSS)

EUR 1 000	2019	2018
Current service cost	**1 669**	1 646
Interest cost (+) income (-) on benefit obligation	**492**	472
Total	**2 161**	2 118

AMOUNTS RECOGNISED THROUGH OTHER COMPREHENSIVE INCOME

EUR 1 000	2019	2018
Experience adjustments	**604**	16
Actuarial gains (-)/ losses (+) on plan assets	**4 464**	851
Remeasurements in other comprehensive income	**5 068**	867

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

Defined benefit obligation at 1 January	**22 182**	20 195
Current service cost	1 629	1 607
Interest cost	540	515
Expense recognized in income statement	**2 169**	2 122
Changes in actuarial assumptions	4 607	846
Experience adjustment	487	16
Remeasurement recognised through OCI	**5 094**	862
Benefits paid	-606	-361
Exchange difference	-318	-636
Defined benefit obligation at 31 December	**28 521**	22 182

CHANGES IN FAIR VALUE OF PLAN ASSETS

Fair value of plan assets at 1 January	**2 643**	2 324
Current service cost	-40	-39
Interest income	48	43
Items recognised through profit and loss	**9**	4
Actuarial gains/losses (-)	26	-20
Experience adjustment	0	16
Items recognised through OCI	**26**	-4
Contributions paid	430	451
Benefits paid	-378	-132
Fair value of plan assets at 31 December	**2 730**	2 643

VOLUNTARY INSURANCE PLAN ASSETS ARE COMPRISED AS FOLLOWS

%	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Listed shares	**50**	50	50
Debt instruments	**50**	50	50
	100	100	100

DEFINED BENEFIT PLANS: PRINCIPAL ACTUARIAL ASSUMPTIONS

	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Discount rate			
Voluntary insurance plan in Finland	**0.60%**	1.60%	1.60%
ITP2 pension plan in Sweden	**1.70%**	2.60%	2.80%
Rate of salary increase			
Voluntary insurance plan in Finland	**1.10%**	1.60%	1.60%
ITP2 pension plan in Sweden	**3.00%**	3.00%	3.00%
Rate of inflation			
Voluntary insurance plan in Finland	**1.10%**	1.60%	1.60%
ITP2 pension plan	**1.80%**	1.90%	1.90%
Life expectation for pensioners at the age of 65	**Years**	**Years**	**Years**
Voluntary insurance plan			
Male	**21.4**	21.4	21.4
Female	**25.4**	25.4	25.4
ITP2 pension plan in Sweden			
Male	**22**	22	22
Female	**24**	24	24

MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATION OF VOLUNTARY INSURANCE PLAN IN FINLAND

The weighted average duration of defined benefit obligation is 15 years. The weighted average duration is calculated with discount rate 0.60%.

EUR 1 000	FUTURE BENEFIT PAYMENTS (UNDISCOUNTED DEFINED BENEFIT OBLIGATION)
Maturity under 1 year	0
Maturity 1–5 years	142
Maturity 5–10 years	294
Maturity 10–15 years	292
Maturity 15–20 years	174
Maturity 20–25 years	90
Maturity 25–30 years	78
Maturity over 30 years	157
Total	**1 227**

SENSITIVITY ANALYSIS

Sensitivity analysis describes the effect of change in actuarial assumptions to net defined benefit obligation. The sensitivity analyses are based on a change in a significant assumptions, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

Voluntary insurance plan in Finland

ACTUARIAL ASSUMPTIONS	CHANGE IN ASSUMPTION	CHANGE IN DEFINED BENEFIT OBLIGATION EUR (1 000) 2019	2018
Discount rate %	+0.50%	**-81**	-75
	-0.50%	**93**	83
Salary increase	+0.50%	**45**	43
	-0.50%	**-42**	-41

Change in mortality basis so that life expectancy will increase by one year increases net liability 18,718€ (3.6%). Last period the change was 15,939€ (4.7%). Voluntary pension fund plan is in Finland. Finnish legislation requires pension funds to be fully funded.

ITP2 pension plan in Sweden

ACTUARIAL ASSUMPTIONS	CHANGE IN ASSUMPTION	CHANGE IN DEFINED BENEFIT OBLIGATION EUR (1 000) 2019	2018
Discount rate %	+0.50%	**-2 834**	-2 054
	-0.50%	**3 303**	2 385
Salary increase	+0.50%	**1 745**	1 330
	-0.50%	**-1 507**	-1 129
Inflation	+0.50%	**2 215**	1 584
	-0.50%	**-1 974**	-1 417
Life expectancy	+1 year	**1 037**	717
	-1 year	**-1 032**	-719

The average duration of the defined benefit plan obligation at the end of the reporting period is 25 years (2018: 24 years).

RISKS ASSOCIATED WITH DEFINED BENEFIT PLANS

Paulig is exposed to a number of actuarial risks through its defined benefit plans. Following risks are typical for defined benefit plans:

Discount rate

The discount rate is set by looking at mortgage bonds with a duration corresponding to the average remaining maturity of the obligation. If the discount rate is changed it will result in an actuarial gain or loss. An increase of the discount rate results in a decrease of the liability and thus an actuarial gain appears. A decrease of the discount rate gives the opposite effect.

Long-term salary increase assumption

The long-term salary increase assumption is used to evaluate future benefits for the part of the collective that is in service. If the actual salary increases diverge from the chosen assumption or the assumption is changed, it will result in an actuarial gain or loss.

Mortality

If mortality occurs before the expected age, it results in an actuarial gain. If mortality occurs after the expected age, it results in an actuarial loss.

6. CAPITAL STRUCTURE AND FINANCIAL RISK

6.1 SHAREHOLDERS EQUITY AND CAPITAL MANAGEMENT

	A -SHARES	B -SHARES	TOTAL NUMBER OF SHARES	SHARE CAPITAL EUR 1 000
1 January 2018	487 765	15 000	502 765	8 204
31 December 2018	487 765	15 000	502 765	8 204
1 January 2019	487 765	15 000	502 765	8 204
31 December 2019	487 765	15 000	502 765	8 204

Main preferences and restrictions of classes of share capital

The Parent Company's share capital registered with the Trade Register as of 31 December 2019 totalled EUR 8,203,618.4, divided into 487,765 A Class shares and 15 000 B class shares. The nominal value of one share is not determined.

Class B shares give a preferential right to a dividend of EUR 16 per share. In the event that the company is unable to pay a dividend of EUR 16 per each Class B share, these shares confer the right to receive any unpaid portion of the dividends in later years before any dividend can be paid for Class A shares. If the dividend per share is EUR 16 or more, both classes of shares carry the same right to dividend.

If the company is dissolved, Class B shares do not give any right to the shareholders' equity accrued in the company before 1 January 2009; instead, these shares give the right to the portion of added value generated in the company after 31 December 2008.

Issues of new shares may consists of either Class A or Class B shares or both. Only Class A shares give the right of first refusal to subscribe new shares irrespective of the class of shares involved.

If a Class A share in the company is transferred to a new shareholder the holders of Class A share in the shareholders register at the time of transfer have the right of first refusal, and the company the right of second refusal, to redeem Class A shares. The right of redemption does not apply to transfers of Class A shares to direct heirs in a descending order. No redemption right applies when a share is transferred to a new owner by the company.

If a Class B share in the company is transferred to a new shareholder the holders of Class B shares in the shareholders register at the time of transfer have the right of first refusal, and the company the right of second refusal, to redeem Class B shares.

Specific terms and conditions applied to transfers of Class A and B shares are specified in the Paulig Ltd's Articles of Association.

Other funds

Other restricted equity fund comprises of restricted funds other than share capital.

Revaluation fund includes revaluation made to land areas.

The cash flow hedge fund includes the effective portion of accrued fair value changes of derivative instruments used for cash flow hedging.

Other OCI items include the net change of the fair value of equity investments measured through OCI and remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income.

The unrestricted equity funds consist of the invested non-restricted equity fund held by the Parent Company.

Foreign currency translation fund include exchange differences resulting from the translation of income statement of foreign entities at the average exchange rates and balance sheet at the closing rates and is also included in the OCI.

Dividends

After the closing date, the Board of Directors has proposed dividend distribution of EUR 25.57 per share.

Capital management

For the purpose of Paulig Group's capital management, capital includes issued capital, invested distributable equity fund and all other equity reserves attributable to the equity holders of the parent. The main objective is to maintain strong capital structure and to ensure the Group's capacity to fund its operations on a long-term basis in order to be able to maximise the shareholder value. Based on Group's policy the target is to keep equity ratio above 50%.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The development of the Group's capital structure is continuously monitored by equity ratio, by gearing ratio and by comparing net debt to EBITDA.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

EUR 1 000	2019	2018
Share capital on 1 January	**8 204**	8 204
Share capital on 31 December	**8 204**	8 204
Other restricted funds on 1 January	**4 168**	4 168
Other restricted funds on 31 December	**4 168**	4 168
Revaluation fund on 1 January	**161**	161
Change for the financial year	**-161**	0
Revaluation fund on 31 December	**0**	161
Cash flow hedge fund on 1 January	**83**	1 363
Change for the financial year	**2 262**	-1 280
Cash flow hedge fund on 31 December	**2 345**	83
Foreign currency translation fund on 1 January	**-10 112**	0
Change for the financial year	**-1 019**	-10 112
Foreign currency translation fund on 31 December	**-11 131**	-10 112
Other OCI items on 1 January	**1 239**	1 761
Changes for the financial year	**-2 994**	-522
Other OCI items on 31 December	**-1 755**	1 239
Unrestricted equity funds on 1 January	**4 324**	4 324
Unrestricted equity funds on 31 December	**4 324**	4 324
Retained earnings on 1 January	**616 170**	574 032
Dividend	**-21 116**	-16 088
Other change for the financial year	**0**	24
Retained earnings on 31 December	**595 054**	557 968
Profit for the period	**55 381**	58 202
Total shareholders' equity on 31 December	**656 590**	624 237

6.2 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

§ Accounting principles

Financial assets

Under IFRS 9 Paulig Group classifies financial assets in the following measurement categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Financial assets are classified as current assets, except when the remaining maturity exceed 12 months after balance sheet date, which are classified as non-current assets.

Financial assets measured at amortised cost

Financial assets recognised at amortised cost include the financial assets where the business model is to hold the asset to collect the contractual cash flows which represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Group's financial assets at amortised cost consist of cash and cash equivalents, trade receivables and other held-to-maturity receivables that are non-derivative assets.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss consist of investments in funds, equity investments, debt instruments and derivatives which do not meet criteria for hedge accounting. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. If the fair value of investments in unlisted companies cannot be reliably measured, the assets can be measured at cost. Change in fair value and gains or losses are included in financial income and expenses including the results from impairment assessment.

Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are debt instruments or receivables held within business model whose objective is to collect contractual cash flows and selling financial assets, and where contractual cash flows represents solely payments of principal and interest. Interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and are measured in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change in OCI is recycled to profit or loss. The Group includes derivative instruments under hedge accounting in this measurement category.

The Group has also made an irrevocable election to recognise particular equity instruments at fair value through other comprehensive income that would otherwise be measured at fair value through profit or loss. Gains and losses on these financial assets are never recycled to profit or loss. Only dividends are recognized through profit or loss in accordance with IFRS 9. These particular equity instruments are considered long term investments and are not held for trading purpose. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, net of transactions costs. For purposes of subsequent measurement, financial liabilities are classified in two categories: amortised costs and fair value through profit or loss. Financial liabilities are classified as current liabilities, except when the remaining maturity exceed 12 months after balance sheet date, which are classified as non-current liabilities.

Financial liabilities at amortised cost

Financial liabilities recognised at amortised cost consist of interest-bearing loans, lease liabilities, trade payables, advance payments and other liabilities and financial instruments included in accrued expenses. Financial liabilities measured at amortized cost are recognized initially at fair value, net of transaction costs, on the trading date and subsequently measured at amortized cost using the effective interest method. Financial liabilities are included in current and non-current liabilities and may be either interest-bearing or non-interest-bearing.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. In Paulig Group financial liabilities recognised through profit or loss include commodity and currency derivatives that do not fulfil the terms of hedge accounting. Realised and unrealised profits and losses caused by changes in the fair values of derivatives are recognised through profit and loss for the period in which they originate. The accounting principle for derivative financial liabilities under hedge accounting is presented in note 6.4. Derivative instruments.

Derecognition of financial liability

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES BY VALUATION CATEGORY

31 DECEMBER 2019 EUR 1 000	FAIR VALUE THROUGH OCI	FAIR VALUE THROUGH PROFIT OR LOSS	AMORTISED COST	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE	FAIR VALUE HIERARCHY
Non-current financial assets						
Bonds		52 440		**52 440**	**52 440**	1
Equity securities	3 994	161		**4 155**	**4 155**	1.3
Current financial assets						
Trade receivables			121 326	**121 326**	**121 326**	2
Commercial papers		25 936		**25 936**	**25 936**	2
Bonds		2 258		**2 258**	**2 258**	1
Bond funds		112 229		**112 229**	**112 229**	1
Derivative financial instruments	1 540	545		**2 085**	**2 085**	2
Cash and bank			70 436	**70 436**	**70 436**	1
Short-term deposits			10 118	**10 118**	**10 118**	1
Total financial assets	**5 534**	**193 569**	**201 880**	**400 983**	**400 983**	
Non-current financial liabilities						
Lease liabilities			105 496	**105 496**	**105 496**	2
Other non-interest-bearing liabilities			129	**129**	**129**	3
Current financial liabilities						
Lease liabilities			12 851	**12 851**	**12 851**	2
Derivative financial instruments	7 050	1 555		**8 605**	**8 605**	2
Trade payables			133 675	**133 675**	**133 675**	2
Total financial liabilities	**7 050**	**1 555**	**252 151**	**260 756**	**260 756**	

31 DECEMBER 2018 EUR 1 000	FAIR VALUE THROUGH OCI	FAIR VALUE THROUGH PROFIT OR LOSS	AMORTISED COST	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE	FAIR VALUE HIERARCHY
Non-current financial assets						
Bonds		5 647		**5 647**	**5 647**	1
Equity securities	2 982	161		**3 143**	**3 143**	1.3
Current financial assets						
Trade receivables			131 646	**131 646**	**131 646**	2
Commercial papers		44 930		**44 930**	**44 930**	2
Bond funds		102 377		**102 377**	**102 377**	1
Derivative financial instruments	63	2 625		**2 688**	**2 688**	2
Cash and bank			31 166	**31 166**	**31 166**	1
Short-term deposits			30 118	**30 118**	**30 118**	1
Total financial assets	**3 045**	**155 741**	**192 930**	**351 716**	**351 716**	
Non-current financial liabilities						
Lease liabilities			113 236	**113 236**	**113 236**	2
Other non-interest-bearing liabilities			66	**66**	**66**	3
Current financial liabilities						
Lease liabilities			12 272	**12 272**	**12 272**	2
Derivative financial instruments	659	430		**1 089**	**1 089**	2
Trade payables			119 945	**119 945**	**119 945**	2
Total financial liabilities	**659**	**430**	**245 519**	**246 608**	**246 608**	

1 JANUARY 2018 EUR 1 000	FAIR VALUE THROUGH OCI	FAIR VALUE THROUGH PROFIT OR LOSS	AMORTISED COST	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE	FAIR VALUE HIERARCHY
Non-current financial assets						
Bonds		8 806		**8 806**	**8 806**	1
Equity securities	2 865	161		**3 026**	**3 026**	1.3
Current financial assets						
Trade receivables			136 767	**136 767**	**136 767**	2
Commercial papers		22 964		**22 964**	**22 964**	2
Bonds		1 901		**1 901**	**1 901**	1
Bond funds		87 319		**87 319**	**87 319**	1
Derivative financial instruments	277	1 285		**1 562**	**1 562**	2
Cash and bank			31 277	**31 277**	**31 277**	1
Short-term deposits			20 085	**20 085**	**20 085**	1
Total financial assets	**3 142**	**122 437**	**188 128**	**313 707**	**313 707**	
Non-current financial liabilities						
Lease liabilities			124 277	**124 277**	**124 277**	2
Other non-interest-bearing liabilities			14	**14**	**14**	3
Current financial liabilities						
Lease liabilities			11 688	**11 688**	**11 688**	2
Derivative financial instruments	215	1 737		**1 952**	**1 952**	2
Trade payables			134 279	**134 279**	**134 279**	2
Total financial liabilities	**215**	**1 737**	**270 258**	**272 210**	**272 210**	

TOTAL FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

EUR 1 000	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Financial assets			
Level 1	**251 475**	172 290	152 253
Level 2	**149 347**	179 264	161 293
Level 3	**161**	161	161
Total	**400 983**	351 716	313 707
Financial liabilities			
Level 1			
Level 2	**260 627**	246 542	272 196
Level 3	**129**	66	14
Total	**260 756**	246 608	272 210

Determination of fair values

For financial instruments that are measured at fair value in the balance sheet, the following measurement hierarchy and valuation methods have been applied:

Level 1 = Fair values are based on identical assets or liabilities quoted (unadjusted) in active markets
Level 2 = Fair values are based on other than level 1 quoted prices and are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e., derived from prices)
Level 3 = Fair values are not based on observable market data

The equity securities measured at fair value through OCI at level 1 consist of listed equity investments which are directly valued based on exchange quotations. The equity securities measured at fair value through profit or loss at level 3 include unlisted shares for which the fair value cannot be reliably determined.

The management assessed that cash and bank and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities fair value approximate their carrying amounts largely due to the short-term maturities of these instruments.

There have been no transfers between levels during years 2018 nor 2019.

INVESTMENTS IN EQUITY INSTRUMENTS

Paulig Group has made an irrevocable election to recognizes following equity instruments at fair value through other comprehensive income. These equity instruments are considered long term investments and are not held for trading purpose.

Reconciliation of fair value measurement of listed equity investments classified as equity instruments designated at fair value through OCI

EUR 1 000	KESKO OYJ
Fair value as at 1 January 2018	**2 865**
Remeasurement recognised in OCI	117
Purchases	0
Sales	0
Fair value as at 31 December 2018	**2 982**
Remeasurement recognised in OCI	1 012
Purchases	0
Sales	0
Fair value as at 31 December 2019	**3 994**

Paulig Group received EUR 0.15 million dividend from Kesko Oyj during year 2019 (2018: EUR 0.14 million).

6.3 FINANCIAL RISK MANAGEMENT

The principles and organization of financial risk management

The nature of Paulig business operations exposes the company to various financial risks such as commodity, foreign exchange, credit and liquidity risks. Group's risk management aim is to minimize adverse effect on the Group's financial performance. Paulig Board of Directors has approved risk management guidelines in the Group Treasury Policy and Commodity Risk Policy. Paulig's treasury operations are managed centrally by the Group Treasury unit. Operating as a counterparty to the Group's operational units, Group Treasury is responsible for managing external financing, liquidity and external currency hedging operations. Commodity hedging operations are managed separately by sourcing organisation. Centralised treasury operations aim to ensure financing on flexible and competitive terms, optimised liquidity management, cost-efficiency and efficient management of financial risks.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Group Treasury is responsible for managing credit risk of the financial instruments and transactions on a Group level. The principle is that Paulig Group requires a minimum credit rating of A-, A- or A- (Moody's, Standard & Poor's, or Fitch Ratings) when entering into an agreement or transaction with a financial counterparty. Separate rules and principles are in force when investing excess liquidity. Counterparty specific risk limits are set for each financial institution consisting of a limit for balances on bank accounts, term money market investments and a net fair value on derivatives of outstanding transactions with the counterparty. Counterparty specific risk limit is also set for each counterparty in which investment of excess liquidity is made. Prior to entering into a financial derivative transaction with a bank, a master agreement between the Group and the counterparty needs to be in effect, e.g. ISDA (International Swap Dealers Association) or an equivalent master agreement.

Group Companies are responsible for the credit risk arising from business operations. Each Group Company is responsible for managing and analysing the credit risk of both existing and potential new customers. Risk control is based on assessing the credit quality of the customer, taking into account the financial position, past experience and performance as well as forward looking macroeconomic factors. For trade receivables and contract assets, Paulig Group applies a simplified approach in calculating Expected Credit Loss (ECL), which uses a lifetime expected loss allowance to be assessed and recognised regularly, see note 5.2

Liquidity risk

Liquidity risk materializes if a company ceases to have cash or has insufficient credit limits and borrowing facilities to meet its contractual obligations. The Group monitors its risk of a shortage of funds using a liquidity planning tool.

Group Treasury is responsible for maintaining sufficient liquidity resources and borrowing facilities in order to secure the availability of liquidity needs arising from the Group's operations. For cost efficiency reasons liquid funds are kept at 2% or below of the Group's annual net sales as long as the Group has net external long-term debt.

Commodity risk

Paulig Group is exposed to market price risk of commodities (raw material). Biggest risk arises from green coffee purchases. Global trading volumes in the green coffee market are large and speculative trading exists. The market price volatility is high, sudden and sharp movements in the market price are possible. Hedging is conducted according to Paulig's commodity risk management policy, which covers the main principles of the green coffee price risk management and hedging practices. Based on 12-month rolling forecast of the required coffee supply, the Group hedges the coffee margin by using forward and option commodity purchase contracts. Commodity derivatives do not result in physical delivery of coffee, but are designated as cash flow hedges to offset the effect of price changes in coffee.

Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Group is exposed to transaction risk resulting from cash flows related to revenue and expenditure in different currencies other than the operating's units own functional currency. Group main foreign selling currencies are RUB, SEK and NOK. Majority of raw material purchases are done in USD.

Transaction exposure

Group companies are responsible for identifying exposures and monitoring balances against transaction risk related to their business operations in accordance with the Group Treasury Policy.

Group Treasury is responsible for the external execution of the transaction exposure of Paulig Group and for ensuring that hedging guidelines are followed. Group Treasury supports Group Companies in determining their foreign exchange exposures. The Group Company has the primary initiative for hedging decision, and Group Treasury offers hedging solutions. The exposure is defined from each Group Company's perspective on a rolling 12-month period of cash flows per currency. The main principle is to hedge an exposure which exceeds 5% of the net sales of the Group Company. The foreign currency risk is hedged by using foreign currency forward contracts. The Group does not apply hedge accounting to foreign exchange derivatives.

NET FORECAST FOREIGN CURRENCY TRANSACTION EXPOSURE, OTHER THAN OPERATING UNITS FUNCTIONAL CURRENCY

31 DECEMBER 2019 EUR 1 000	USD	RUB	SEK	NOK
Next 12 months forecast foreign currency cash flow	167 722	-27 633	-5 213	-25 031
Cash flow, hedges at 31 December 2019	-54 121	13 352	6 293	10 442
Total exposure	**113 601**	**-14 281**	**1 080**	**-14 589**

31 DECEMBER 2018 EUR 1 000	USD	RUB	SEK	NOK
Next 12 months forecast foreign currency cash flow	148 269	-21 178	-4 788	-24 513
Cash flow, hedges at 31 December 2018	-53 349	10 991	4 588	7 639
Total exposure	**94 920**	**-10 187**	**-200**	**-16 874**

MATURITY OF THE GROUP'S FINANCIAL LIABILITIES AND TRADE PAYABLES

31 DECEMBER 2019 EUR 1 000	2020	2021	2022	2023	2024	LATER
Leasing liabilities*	12 851	10 597	9 242	8 070	7 294	70 293
Derivative liabilities	8 605					
Trade payables	133 675					
Total	**155 131**	**10 597**	**9 242**	**8 070**	**7 294**	**70 293**

31 DECEMBER 2018 EUR 1 000	2020	2021	2022	2023	2024	LATER
Leasing liabilities*	12 272	11 529	9 264	8 218	7 572	76 654
Derivative liabilities	1 089					
Trade payables	119 945					
Total	**133 306**	**11 529**	**9 264**	**8 218**	**7 572**	**76 654**

* Leasing liabilities include interest payments.

A 10% adverse change in the foreign currency exchange rates above would result loss of EUR 26.7 million (2018: EUR 24.0 million) in net result and equity, based on forecasted cash flow. Net result of open foreign exchange contracts would result gain of EUR 8.6 million (2018: EUR 8.0 million). Adverse change refers weakening of the currency, except in the case of USD.

Translation risk

Currency translation risk is defined as the risk arising from the translation of a foreign subsidiary's profit and loss statement and balance sheet into the Group's base currency in consolidation. When the income statement and balance sheet of the subsidiaries in foreign currency are translated into EUR, the values of Paulig Group's consolidated assets, liabilities and equity will be affected. The policy is that the translation risk is not hedged, since the risk has no short-term cash flow impact.

Interest rate risk

Interest rate risk is the exposure of the Group to fluctuations of market interest rates and interest margins influencing finance costs, returns on financial investments and valuation of interest-bearing balance sheet items. The Group's interest rate risk is managed by Group Treasury. The objective is to control the effects of fluctuations in the interest rates on the Group's financial position and profitability and to minimize the net interest cost over time.

At the end of financial years 2019 and 2018 the Group did not have any interest-bearing liabilities other than debt arising from lease liabilities. Interest-bearing assets exposed to interest rate risk amounted EUR 114.5 million at the end of year 2019 (2018: EUR 102.4 million).

6.4 DERIVATIVE INSTRUMENTS

§ Accounting principles

The Group uses derivative financial instruments, such as forward currency contracts and forward commodity contracts, to hedge its foreign currency risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Derivatives are recognized on the trade date at fair value and other current financial assets on the settlement date. Later derivatives are remeasured at their fair value each reporting date and any subsequent change is recognized at profit and loss if hedge accounting is not used.

If hedge accounting is applied, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge, at the inception of a hedge relationship. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements.

Derivatives are classified as non-current assets or liabilities when the remaining maturities exceed 12 months and as current assets or liabilities when the remaining maturities are less than 12 months.

Cash flow hedge

The Group applies cash flow hedge accounting to commodity derivatives, mainly forwards and options, to manage the cost of green coffee as a part of the USD coffee margin. Hedging is conducted according to Paulig's commodity risk management policy, which covers the main principles of the green coffee price risk management and hedging practices.

The change in fair value of the effective portion of derivative instruments designated as cash flow hedges are recognised in OCI in the cash flow hedge fund. Gains or losses for commodity derivatives used to hedge the commodity price risk exposure are accrued over the period to maturity and are recognized in the materials and services in the consolidated statement of profit and loss adjusting the coffee margin. If a hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is immediately transferred to the profit or loss.

The Group assess hedging effectiveness both at hedge inception and quarterly whether the derivatives used in hedging are effective in offsetting changes in the fair value of the hedged item. The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge fund, from which it is transferred to the income statement when the hedged item is realised. Any ineffective portion is recognised immediately in the statement of profit or loss.

There is an economic relationship between the hedged item coffee margin in USD and the hedging instruments (coffee forwards/options) as the critical terms of the hedging instrument and the hedged item are closely aligned consisting the same element, coffee price. The Group has established a hedge ratio of 1:1 for the hedging relationship as the rolling sales forecast covers the estimated monthly coffee sales volumes 12 months forward which determines the monthly volumes for hedging. According to Treasury Policy only A- or better rated counterparties are used for hedging activities and therefore counterparty rating does not affect nor dominate the hedged item. Credit ratings of counterparties are being monitored on a yearly basis. Credit risk management is described in more detail in note 6.3.

The Group does not apply hedge accounting to foreign exchange derivatives.

THE EFFECT OF THE CASH FLOW HEDGE IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

HEDGING GAINS AND LOSSES 2019

EUR 1 000	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT RECOGNISED IN OCI	AMOUNT RECLASSIFIED FROM OCI TO PROFIT OR LOSS	LINE ITEM AFFECTED IN PROFIT OR LOSS BECAUSE OF THE RECLASSIFICATION	HEDGING GAINS AND LOSSES FOR DERIVATIVES NOT HEDGE ACCOUNTED	LINE ITEM AFFECTED IN PROFIT OR LOSS
Derivatives hedge accounted					
Commodity derivatives	2 261	1 811	Material and services		
Derivatives outside hedge accounting					
Commodity derivatives				-89	Financial expenses
Currency derivatives				1 489	Financial income
Currency derivatives				-2 403	Financial expenses

HEDGING GAINS AND LOSSES 2018

EUR 1 000	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT RECOGNISED IN OCI	AMOUNT RECLASSIFIED FROM OCI TO PROFIT OR LOSS	LINE ITEM AFFECTED IN PROFIT OR LOSS BECAUSE OF THE RECLASSIFICATION	HEDGING GAINS AND LOSSES FOR DERIVATIVES NOT HEDGE ACCOUNTED	LINE ITEM AFFECTED IN PROFIT OR LOSS
Derivatives hedge accounted					
Commodity derivatives	-1 279	5 667	Material and services		
Derivatives outside hedge accounting					
Commodity derivatives				147	Financial income
Currency derivatives				2 911	Financial income
Currency derivatives				-747	Financial expenses

Hedging is verified to be effective, no ineffectiveness have been booked. The amount of cost of hedging is not material and is recognised simultaneously with underlying sales to profit or loss.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

EUR 1 000	31 DECEMBER 2019 POS.	NEG.	NET	31 DECEMBER 2018 POS.	NEG.	NET	1 JANUARY 2018 POS.	NEG.	NET
Derivatives in hedge accounting									
Commodity derivatives, cash flow hedges	**1 540**	**7 050**	**-5 510**	63	659	-596	277	215	62
Derivatives not in hedge accounting									
Foreign exchange derivatives, not in hedge accounting	**508**	**1 519**	**-1 011**	2 599	429	2 170	1 249	1 722	-473
Commodity derivatives, not in hedge accounting	**37**	**36**	**1**	26	1	25	36	15	21
Total	**2 085**	**8 605**	**-6 520**	2 688	1 089	1 599	1 562	1 952	-390

Positive (negative) fair value of hedging instruments on 31 Dec 2019 is presented in the statement of financial position in the item Other current financial assets (derivative liabilities within Trade and other payables).

EUR 1 000 NOMINAL VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS	31 DECEMBER 2019 NOMINAL	31 DECEMBER 2018 NOMINAL	1 JANUARY 2018 NOMINAL
Commodity derivatives and foreign exchange derivatives	**230 431**	165 640	190 986

The maturity for all open derivatives is under 12 months as of 31 December 2019.

6.5 CONTINGENT LIABILITIES AND OTHER COMMITMENTS

EUR 1 000 GUARANTEES	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Other guarantees for own commitments	**6 959**	5 336	1 936
Other commitments			
Repurchase commitments of coffee machines	**334**	331	400
Commitments for purchase of tangible assets		2 124	2 254
Leases not yet commenced to which Paulig is committed	**1 302**	194	259
Total contingent liabilities and other commitments	**8 595**	7 986	4 849

7. OTHER NOTES

7.1 RELATED PARTY TRANSACTIONS

Paulig Group related parties consists of its subsidiaries and associate companies, The Board of Directors, the CEO and the Leadership team, their closely related family members as well as companies or joint ventures owned by them.

PAID EMPLOYEE BENEFITS OF MANAGEMENT

EUR 1 000	2019	2018
Salaries and other short-term benefits	**3 240**	2 607
Post-employment benefits	**1 140**	853
Other long-term benefits	**349**	110
Termination benefits	**207**	187
Total	**4 936**	3 756

During the year 2019 Paulig Group paid EUR 0.65 million (2018: EUR 0.54 million) for obtaining key management personnel services provided by a separate management entity.

Paulig Group company has entered into a lease agreement over Vuosaari roastery and office premises with Kahvimo Oy which is a related party to Paulig Group based on the ownership structure. Amounts owed to Kahvimo Oy represents lease liability over the roastery rent agreement. See note 4.4 Leases for more information.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the yearend are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2018: EUR 0). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

THE FOLLOWING TABLE PROVIDES THE TOTAL AMOUNT OF TRANSACTIONS THAT HAVE BEEN ENTERED INTO WITH RELATED PARTIES FOR THE RELEVANT FINANCIAL YEAR

EUR 1 000		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	AMOUNTS OWED BY RELATED PARTIES	AMOUNTS OWED TO RELATED PARTIES
Kahvimo Oy	**2019**				**60 056**
	2018				60 768
	As at 1 January 2018				61 441
Fuchs Group Companies	**2019**	**1 115**	**84**	**192**	**15**
	2018	1 422	36	303	18
	As at 1 January 2018			154	

7.2 EVENTS AFTER THE REPORTING PERIOD

There have been no other significant events after the reporting period.

Parent company's income statement

EUR 1 000	NOTE	1 JANUARY 2019– 31 DECEMBER 2019	1 JANUARY 2018– 31 DECEMBER 2018
Net sales	1	**10 849**	9 556
Other operating income	2	**19 307**	4 388
Personnel expenses	3	**-7 640**	-5 513
Depreciation and value adjustments	4	**-673**	-673
Other operating expenses	5	**-14 880**	-13 640
Operating profit		**6 963**	-5 881
Financial income and expenses	6		
Dividend income on long-term financial assets		**152**	142
Interest income and other financial income		**8**	0
Interest expenses and other financial expenses		**-1 561**	-1 539
		-1 402	-1 396
Profit before appropriations and taxes		**5 561**	-7 278
Appropriations	7		
Change in depreciation difference		**5**	-86
Group contribution		**20 000**	20 000
Income taxes	8	**-5 139**	-2 615
Net profit for the financial year		**20 427**	10 021

Parent company's balance sheet

EUR 1 000	NOTE	31 DECEMBER 2019	31 DECEMBER 2018
Assets			
Fixed assets	9		
Intangible assets			
Intangible rights		**25**	55
Other long-term expenses		**974**	1 463
		998	1 518
Tangible assets			
Land and water		**4 649**	6 650
Buildings and constructions		**1 736**	1 822
Machinery and equipment		**108**	123
		6 494	8 595
Long-term financial assets	10		
Shares in subsidiaries		**312 705**	312 705
Other shares		**1 337**	1 342
Other receivables		**1 522**	1 522
		315 565	315 570
Total fixed assets		**323 057**	325 683
Current assets			
Short-term receivables	11		
Accounts receivable		**14**	0
Receivables from group companies		**36 161**	20 204
Other receivables		**156**	0
Accruals and deferred income		**746**	2 784
		37 077	22 988
Cash and bank		**0**	0
Total current assets		**37 077**	22 988
Total		**360 134**	348 671

EUR 1 000	NOTE	31 DECEMBER 2019	31 DECEMBER 2018
Shareholders' equity and liabilities			
Shareholders' equity	12		
Share capital		**8 204**	8 204
Premium fund		**3 058**	3 058
Revaluation fund		**0**	161
Reserve fund		**76**	76
Reserve for invested non-restricted equity		**4 050**	4 050
Retained earnings		**159 459**	170 554
Net profit for the financial year		**20 427**	10 021
Total shareholders' equity		**195 274**	196 124
Appropriations		**0**	5
Liabilities	14		
Long-term liabilities			
Interest bearing liabilities		**147 856**	147 856
		147 856	147 856
Current liabilities			
Advances received		**4 250**	0
Accounts payable		**1 084**	1 452
Liabilities to group companies		**7 084**	17
Other liabilities		**129**	906
Accruals and deferred expenses		**4 456**	2 311
		17 003	4 685
Total liabilities		**164 860**	152 542
Total		**360 134**	348 671

Parent company's cash flow statement

EUR 1 000	NOTE	2019	2018
Cash flow from operating activities			
Profit after financial items		**5 561**	-7 278
Adjustments, total	15	**-13 017**	1 934
Operating profit before change in net working capital		**-7 456**	-5 344
Change in net working capital	15	**-11 272**	1 381
Cash generated from operations		**-18 728**	-3 962
Interes received		**8**	0
Interest paid		**-1 556**	-1 538
Income taxes paid		**-1 544**	-4 354
Net cash flow from operating activities		**-21 821**	-9 854
Cash flow from investing activities			
Capital expenditures		**-7 737**	-321
Proceeds from sale of fixed assets		**24 201**	0
Proceeds of sale of other shares		**415**	275
Dividends received		**152**	142
Net cash flow from investing activities		**17 031**	96
Cash flow from financing activities			
Advances received		**4 250**	0
Group contribution		**20 000**	20 000
Increase (+), decrease (-) in short-term liabilities		**1 657**	5 847
Dividends paid		**-21 116**	-16 088
Net cash flow from financing activities		**4 791**	9 758
Change in liquid funds		**0**	0
Liquid funds on 1 January		**0**	0
Liquid funds on 31 December		**0**	0

The figures above cannot be directly traced from the balance sheet without additional information.

Accounting principles

The parent company's financial statements have been prepared according to the Finnish Accounting Standards (FAS).

Associated companies

The Group's share of the associated companies' results is calculated in proportion to the Group's interest in the company, taking into account depreciation of goodwill arising from the acquisition. Dividends received from the associated companies are eliminated. Unrealized margins from business transactions between associated and Group companies are eliminated in proportion to share ownership.

The Group's share of the net assets accumulated after the acquisition less the accrued goodwill depreciation is included in the acquisition cost of the associated company and in the Group's retained earnings in the balance sheet.

Goodwill arising in connection with the acquisition of the associated companies' shares will be written off during its economic lifetime up to a maximum of 20 years. For the acquisition of associated companies that support the Group's core business areas and that are strategically significant, the depreciation time of 20 years is applied. How well the business is established and its development potential, affect the assessment of the depreciation time. The residual values of the group goodwill are assessed by impairment tests, which are carried out annually.

The Group's share of the results in the associated companies related to the core business are posted in the operating profit.

Foreign currency items

Foreign exchange gains and losses related to operative business are recognised as adjustments to sales, purchases and investments. Foreign exchange gains and losses associated with financing are recognised as financial income and expenses.

Receivables and liabilities in foreign currency are valued at the rate of the closing date.

Net sales

Net sales are calculated as gross sales less indirect taxes, discounts and exchange rate differences.

Pension expenditures

The pension cover of the personnel of the parent company is based on pension insurance.

Income taxes

Taxes calculated based on result for the financial year and tax adjustments for the previous financial years have been entered as direct taxes in the consolidated income statement.

Fixed assets and depreciation

Fixed assets are reported in the balance sheet at their original acquisition cost less planned accumulated depreciation. Planned depreciation is based on the following estimated lifetimes:

Intangible rights	3 – 10 yrs
Goodwill	5 – 10 yrs
Group goodwill	5 – 10 yrs
Other long-term expenses	5 – 10 yrs
Buildings and constructions	25 yrs
Machinery and equipment	3 – 10 yrs

No depreciation is made on land.

Securities included in fixed assets and other long term investments are valued at their acquisition cost or, if their current value has been permanently depreciated, at the depreciated value.

Financial assets

Securities included in financial assets are valued at the acquisition cost or, if their market value is lower than that, at the lower value.

Provisions

Provisions comprise items which the company has committed to cover either through agreements or otherwise, but which have not yet materialized. In the income statement, the change in provisions is included in the appropriate expense item.

Appropriations

The appropriations consist of depreciation difference.

Notes to the financial statements

EUR 1 000	2019	2018

1. NET SALES

Net sales by market area		
Nordic countries	**3 946**	4 536
Continental Europe	**3 610**	2 454
United Kingdom and Ireland	**2 007**	1 040
Baltic countries	**1 286**	1 527
Total	**10 849**	9 556

2. OTHER OPERATING INCOME

Profit on sales of other fixed assets	**14 677**	175
Other income	**4 630**	4 213
Total	**19 307**	4 388

3. NOTES CONCERNING THE PERSONNEL AND THE MEMBERS OF ADMINISTRATIVE BODIES

Personnel expenses		
Salaries and remuneration for Managing Directors and the members of the Board of Directors	**873**	807
Other wages and salaries	**5 581**	3 868
Pension expenses	**1 040**	728
Other personnel expenses	**146**	109
Total	**7 640**	5 513

Average number of personnel		
Nordic countries	**40**	41
Total	**40**	41

EUR 1 000	2019	2018

4. DEPRECIATION AND VALUE ADJUSTMENTS

Depreciation on tangible assets	**101**	99
Depreciation on intangible assets	**573**	574
Total	**674**	673

5. FEES FOR AUDITING COMPANIES

Ernst & Young		
Statutory auditing fees	**46**	67
Statements and other certificates	**0**	2
Tax consulting	**15**	0
Other fees	**76**	44
Others		
Tax consulting	**11**	16
Other fees	**554**	366
Total	**565**	495

6. FINANCIAL INCOME AND EXPENSES

Dividend income		
From others	**152**	142
Total	**152**	142

Interest income and other financial income		
From others	**8**	0
Total	**8**	0

Interest expenses and other financial expenses		
To group companies	**1 536**	1 516
To others	**25**	22
Total	**1 561**	1 539

EUR 1 000	2019	2018

7. APPROPRIATIONS

Change in depreciation difference	**5**	-86
Group contribution	**20 000**	20 000
Total	**20 005**	19 914

8. INCOME TAXES

Income tax on ordinary business	**-1 139**	1 385
Income tax on group contributions	**-4 000**	-4 000
Total	**-5 139**	-2 615

9. FIXED ASSETS

Intangible rights		
Acquisition cost on 1 January	**461**	3 300
Increase	**0**	7
Decrease	**0**	-2 847
Acquisition cost on 31 December	**461**	461
Accumulated depreciation on 1 January	**-406**	-3 222
Depreciation of the financial year	**-30**	-30
related to decreases and transfers	**0**	2 847
Accumulated depreciation on 31 December	**-436**	-406
Book value on 31 December	**25**	55

Other long term expenses		
Acquisition cost on 1 January	**3 353**	3 621
Increase	**53**	248
Decrease	**0**	-516
Acquisition cost on 31 December	**3 406**	3 353

EUR 1 000	2019	2018
Accumulated depreciation on		
1 January	**-1 890**	-1 862
Depreciation of the financial year	**-542**	-544
related to decreases and transfers	**0**	516
Accumulated depreciation on 31 December	**-2 432**	-1 890
Book value on 31 December	**974**	1 463
Land and water		
Acquisition cost on 1 January	**6 650**	6 635
Increase	**7 684**	16
Decrease	**-9 685**	0
Book value on 31 December	**4 649**	6 650
Buildings and constructions		
Acquisition cost on 1 January	**2 517**	9 043
Decrease	**0**	-6 526
Acquisition cost on 31 December	**2 517**	2 517
Accumulated depreciation on		
1 January	**-695**	-7 088
Depreciation of the financial year	**-86**	-92
related to decreases and transfers	**0**	6 485
Accumulated depreciation on 31 December	**-781**	-695
Book value on 31 December	**1 736**	1 822
Machinery and equipment		
Acquisition cost on 1 January	**377**	3 354
Increase	**0**	50
Decrease	**0**	-3 026
Acquisition cost on 31 December	**377**	377
Accumulated depreciation on		
1 January	**-254**	-3 275
Depreciation of the financial year	**-14**	-6
related to decreases and transfers	**0**	3 026
Accumulated depreciation on 31 December	**-268**	-254
Book value on 31 December	**108**	123

EUR 1 000	2019	2018
Revaluations		
Above mentioned book values include revaluations as follows:		
Land and water		
Value on 1 January	**3 164**	3 164
Decrease	**-1 470**	0
Value on 31 December	**1 694**	3 164

10. FINANCIAL ASSETS

EUR 1 000	2019	2018
Shares in group companies		
Acquisition cost on 1 January	**312 705**	312 705
Book value on 31 December	**312 705**	312 705
Other shares		
Acquisition cost on 1 January	**1 342**	1 441
Decrease	**-5**	-99
Book value on 31 December	**1 337**	1 342
Other receivables		
Pension insurances	**1 522**	1 522
Total	**1 522**	1 522
Pension insurances relate to Mandatum Life pension insurances		
Acquisition cost	**1 522**	1 522
Market value	**2 115**	1 853

11. RECEIVABLES

EUR 1 000	2019	2018
Short-term receivables		
From group companies		
Accounts receivable	**32**	3
Other receivables	**36 129**	20 202
Total	**36 161**	20 204

EUR 1 000	2019	2018
Main items included in accruals and deferred income		
Income tax receivables	**0**	2 327
Accrued personnel expenses	**0**	60
Other	**746**	397
Total	**746**	2 784

12. SHAREHOLDERS' EQUITY

EUR 1 000	2019	2018
Share capital on 1 January	**8 204**	8 204
Share capital on 31 December	**8 204**	8 204
Premium fund on 1 January	**3 058**	3 058
Premium fund on 31 December	**3 058**	3 058
Revaluation fund on 1 January	**161**	161
Change for the financial year	**-161**	0
Revaluation fund on 31 December	**0**	161
Reserve fund on 1 January	**76**	76
Reserve fund on 31 December	**76**	76
Reserve for invested non-restricted equity on 1 January	**4 050**	4 050
Reserve for invested non-restricted equity on 31 December	**4 050**	4 050
Retained earnings on 1 January	**180 575**	186 642
Profit distribution	**-21 116**	-16 088
Retained earnings on 31 December	**159 459**	170 554
Net profit for the financial year	**20 427**	10 021
Total shareholders' equity	**195 274**	196 124

EUR 1 000	2019	2018
Distributable equity		
Retained earnings from previous periods 31.12.	**159 459**	170 554
Reserve for invested non-restricted equity	**4 050**	4 050
Net profit for the financial year	**20 427**	10 021
Distributable equity	**183 936**	184 625

Share capital consists of 487 765 A-shares and 15 000 B-shares.

13. LIABILITIES

Long-term liabilities

EUR 1 000	2019	2018
To group companies		
Other liabilities	**147 856**	147 856
Total	**147 856**	147 856

Short-term liabilities

EUR 1 000	2019	2018
To group companies		
Accounts payable	**0**	17
Other liabilities	**7 084**	0
Total	**7 084**	17
To others		
Advances received	**4 250**	0
Accounts payable	**1 084**	1 452
Other liabilities	**129**	906
Accruals and deferred expenses	**4 456**	2 311
Total	**9 919**	4 669
Main items included in accruals and deferred expenses		
Accrued personnel expenses	**1 131**	1 678
Income tax liability	**1 267**	0
Other	**2 057**	633
Total	**4 456**	2 311

14. CONTINGENT LIABILITIES

EUR 1 000	2019	2018
Other guarantees on behalf of group companies		
Guarantees given	**60 000**	105 000
Total	**60 000**	105 000
Other guarantees for own commitments		
Other	**0**	2 713
Total	**0**	2 713
Other liabilities		
	4 250	0
Total	**4 250**	0
Leasing liabilities		
Leasing liabilities, which mature within one year	**906**	875
Leasing liabilities, which mature after one year	**919**	1 097
Total	**1 824**	1 972

15. CASH FLOW STATEMENT

The items in the consolidated income statement on accrual basis are adjusted to cash based items and the items presented elsewhere in the cash flow statement are cancelled by the following transactions:

EUR 1 000	2019	2018
Depreciation	**673**	673
Sales gains and losses on fixed assets	**-14 677**	-176
Value adjustments of fixed assets	**0**	41
Dividend income	**0**	-142
Other financial items	**1 397**	1 539
Other income and expenses	**-410**	0
Total	**-13 017**	1 934

EUR 1 000	2019	2018
Change in net working capital		
Increase (-), decrease (+) in short-term receivables	**-16 423**	1 175
Increase (+), decrease (-) in non interest bearing short-term liabilities	**5 151**	206
Total	**-11 272**	1 381

Change in the group cash pool-account in parent company is included in cash flow from financing.

The Board's proposal to the Shareholders' meeting

The distributable equity of the parent company according to the financial statements of 31 December 2019, is EUR 183 936 407.25 including retained earnings for the previous years EUR 159 459 067.66, reserve for invested non restricted equity EUR 4 050 000.00 and result for the financial year EUR 20 427 339.59.

The Board proposes that a dividend of EUR 25.57 per share on 502 765 shares be paid, totalling EUR 12 855 701.05. The parent company will retain distributable equity of EUR 171 080 706.20.

Signature of the financial statements and the review of the Board of Directors

Helsinki, 26 March 2020

Sanna Suvanto-Harsaae
Chairman of the Board

Robin Hallberg

Christian Köhler

Jukka Moisio

Eduard Paulig

Harri Pulli

Jon Sundén

Rolf Ladau
Managing Director

Auditors' report has been issued today.
Helsinki, 27 March 2020

Ernst & Young Oy

Bengt Nyholm
Authorized Public Accountant

Auditor's report to The Annual General Meeting of Paulig Ltd (Translation of the Swedish original)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Paulig Ltd (business identity code 0112563-0) for the year ended 31 December, 2019. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- The consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- The financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER REPORTING REQUIREMENTS

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

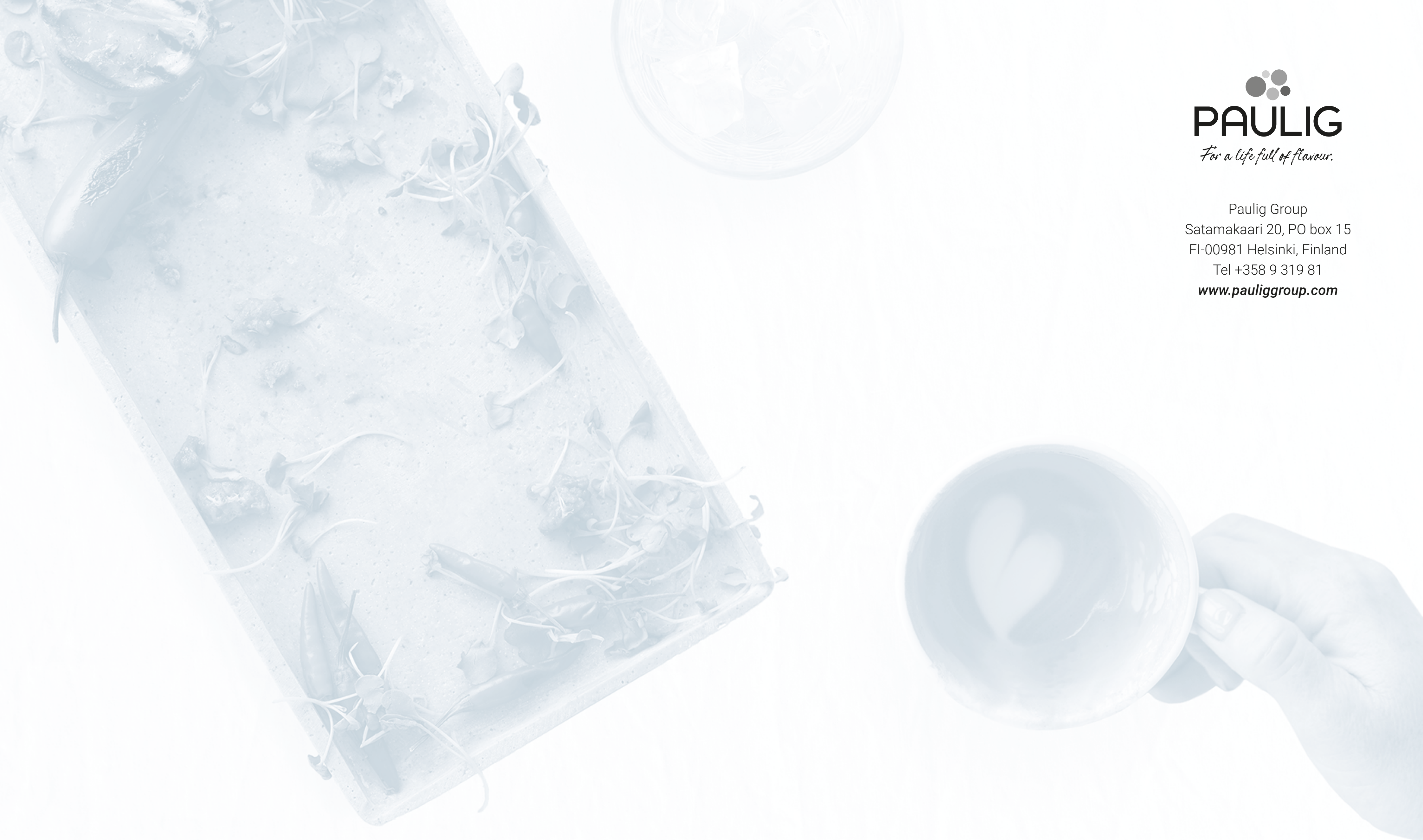
In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 27.3.2020

Ernst & Young Oy
Authorized Public Accountant Firm

Bengt Nyholm
Authorized Public Accountant



PAULIG

For a life full of flavour.

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