Financial Statements 2020

PAULIG

For a life full of flavour.

Contents

Board of Directors’ report for 1 January–31 December 2020

In 2020, Paulig Group’s revenue was EUR 919.5 million (921.4 in 2019), a decrease of 0.2 per cent on the previous year. The Group’s operating profit was EUR 88.3 million (75.4), which was 9.6 per cent (8.2) of net sales. Paulig Group employed 2 160 people on average during the year (2 115).

Changes in the Group structure during the financial year

The following changes took place in the Group’s structure in 2020:
- Paulig Coffee Norway AS was merged with Santa Maria Norge AS
- Santa Maria Finland Ltd was merged with Gustav Paulig Ltd

Revenue

In 2020, Paulig Group’s revenue was EUR 919.5 million (921.4), a decrease of 0.2 per cent on the previous year. The COVID-19 pandemic had a significant negative impact to the revenue in the Out of Home channel but it was partially compensated by the growth in the retail channel.

Of Paulig Group’s total revenue of EUR 919.5 million, 53 per cent came from the Nordic countries and 47 per cent from other countries. Business area Finland & Baltics accounted for 31 per cent of the external revenue, Scandinavia & Central Europe 31 per cent, Customer Brands 31 per cent, East 6 percent and Other 1 per cent.

Result for the financial year

The Group’s operating profit was EUR 88.3 million (75.4), and its ratio to net sales was 9.6 per cent (8.2).

The consolidated result for the financial year, EUR 66.7 million (51.6) included EUR 8.6 million profit (15.1) from real estate sales associated with the sale of land areas in Vuosaari. Depreciation and impairment totalled EUR 49.6 million (61.8). The associated company’s (Fuchs Group) contribution to the consolidated result was EUR 8.7 million (-1.7).

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 117.3 million (103.2). The Group’s solvency was at a good level throughout the year.

Investments

Investments during the financial year totalled EUR 36.7 million (31.3). The most significant investments were related to the production 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 princi-

REVENUE (MEUR)

	2020	2019	CHANGE
Finland & Baltics	**285.0**	301.7	-5.5%
Scandinavia & Central Europe	**283.2**	276.6	2.4%
Customer Brands	**286.2**	267.4	7.0%
East	**54.9**	62.6	-12.3%
Other	**10.2**	13.0	-21.5%
Total	**919.5**	921.4	-0.2%

KEY INDICATORS OF PAULIG GROUP’S FINANCIAL STATUS AND RESULT

	2020	2019	2018
Revenue, MEUR	**919.5**	921.4	908.2
Other income, MEUR	**9.8**	16.1	1.4
Share of results in associated companies, MEUR	**8.7**	-1.7	1.3
Operating profit, MEUR	**88.3**	75.4	73.9
Operating profit, % of net sales	**9.6**	8.2	8.1
Operating profit before depreciation, amortization and impairment, MEUR	**134.0**	137.2	117.4
Profit for the financial year, MEUR	**66.7**	51.6	54.3
Shareholders’ equity, MEUR	**691.1**	649.2	620.7
Return on equity, %	**10.0**	8.1	8.9
Equity ratio, %	**63.9**	64.0	64.4
Cash and short-term deposits, MEUR	**83.1**	80.6	61.3
Interest-bearing liabilities, MEUR	**122.0**	118.3	125.5
Investments during the financial year, MEUR	**36.7**	31.3	29.3

pal 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 increased by 45 persons from the previous year. The majority of the Group's 2 160 employees on average were employed in Belgium (31 per cent), Sweden (22 per cent) and Finland (20 per cent).

PERSONNEL

	2020	2019	2018
Average number of employees	**2 160**	2 115	2 140
Employee benefit expenses, MEUR	**137.1**	132.4	128.5

Innovation and product development

Paulig´s Marketing & Innovations function is responsible for the Group´s innovation and product development activities. Innovation and product development play an important role in the development of the product portfolio and ensuring future growth. During the financial year Paulig introduced several new products to the market under the Group´s various brands.

Paulig City Coffee series was supported with number of launches including Café Reykjavik, Presidentti family was changed as UTZ certified and extended with a Ruby variant in Russia. Presidentti Ruby will be introduced in Finland during 2021. Paulig Frezza cold drinks´ product family was extended with a limited-edition flavor of Black Toffee. Under the Poco Loco brand new flavours were added to the Tortilla Chips and new Wraps and Dinner kits were launched. The Risenta brand was updated and relaunched in Sweden. Gold&Green launched Deli Oats: a new type of ready-to-use delicious plant-based protein, made using a marinating process from raw materials familiar from Pulled Oats. Santa Maria product range was further developed with the focus on new innovations such as Next Mex that will be launched in the beginning of 2021.

Value engineering and production process optimization were implemented in all product segments. Content and concept product development focused also on creating new, sustainable packages.

During the financial year Paulig's venture arm PINC made investments in two start up companies, Kaffe Bueno and Mirai Foods. Kaffe Bueno is a Danish company that upcycles coffee waste into ingredients for cosmetics, nutraceuticals and functional foods. Mirai Foods is a Swiss company that develops commercial products of cultivated meat.

Sustainability

Paulig Group aims to be a sustainable frontrunner within the food & beverage industry. Sustainability is embedded in Paulig's culture and reflected in its values and ethical principles. Sustainability is also integrated into the business strategy and operations.

Paulig's sustainability work is guided by Paulig Sustainability Approach 2030, approved by Paulig Ltd's Board of Directors in February 2020. The approach is based on three prioritized United Nations Sustainable Development Goals and builds on the United Nations Guiding Principles on Business and Human Rights. Paulig's three focus areas with long term ambitions are: health and wellbeing, climate action and circularity, and fair and inclusive way of working. Paulig's impacts and stakeholder expectations are reflected in the approach.

Implementation of the approach was started across Paulig in 2020 and the sustainability roadmap including strategic sustainability initiatives for 2021–2023 was approved by the Board of Directors in June 2020.

As a food and beverage company, product safety and quality are focal issues for Paulig. Paulig continuously develops its processes and ways of working to ensure respect for human rights both in our own operations and throughout the value chain. In April 2020, Paulig became a member of amfori and has publicly called for EU-wide mandatory human rights and environmental due diligence legislation.

Climate change is the most significant long term sustainability risk for Paulig. Paulig's biggest impacts on climate are within the value chain. Climate related risks and impacts are mitigated through the general risk management and the sustainability approach. In July 2020, the Science Based Targets Initiative approved Paulig's climate targets that are aligned with a 1.5°C pathway.

More information on Paulig's sustainability work is published in the Sustainability section of the Annual Report.

Management and auditors

At the end of the financial year, Paulig Ltd's Board of Directors had six members: Jukka Moisio (Chairman), Mathias Bergman, Christian Köhler, Eduard Paulig, Petra Teräsaho and Christina Wergens.

Mathias Bergman, Petra Teräsaho and Christina Wergens were elected as new Board members in April 2020. Sanna Suvanto-Harsaae, Robin Hallberg and Jon Sundén resigned from the Board in April 2020, and Harri Pulli in May 2020.

Peter Rikberg was elected as the observer of the Board and Jessica Jungell-Michelsson resigned from this role in April 2020.

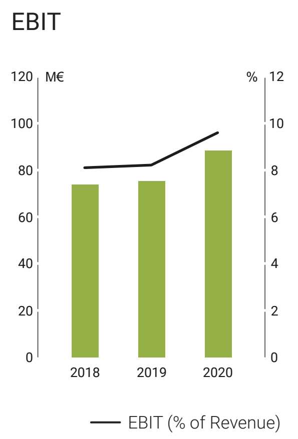
The Group's CEO is Rolf Ladau.

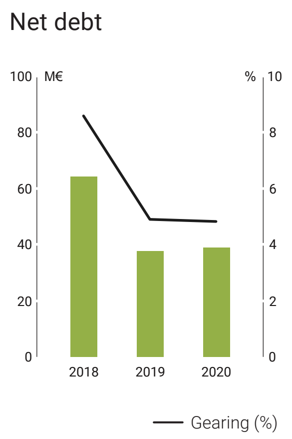
The Group's auditor has been Ernst & Young Oy, with Authorised Public Accountant Bengt Nyholm as the principal auditor.

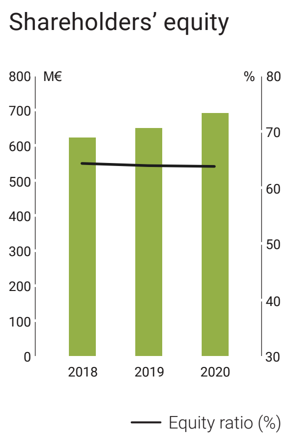
Shares

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 66 682 504.22. The parent company's distributable shareholders' equity was EUR 183 424 145.30 according to the financial statements on 31 December 2020. The Board of Directors proposes that a dividend of EUR 41.80 per share be paid, amounting to EUR 21 015 577.00 in total. The parent company's distributable shareholders' equity would then be EUR 162 408 568.30.

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 moderately increase in 2021 from the previous year. The company continues monitoring the COVID-19 pandemic closely and proactively takes measures concerning its possible implications to the business.

Events following the end of the financial year

The processes for merging Paulig Coffee Sweden AB and Risenta AB with Santa Maria AB have been started and the mergers are expected to be completed during 2021. There have been no other significant events following the end of the financial year.

Consolidated Statement of Comprehensive Income

EUR 1 000	NOTE	2020	2019
Revenue	3.1	**919 532**	921 392
Other operating income	3.2	**9 762**	16 060
Materials and services	3.3	**-489 964**	-501 733
Employee benefit expenses	3.4, 5.8	**-137 094**	-132 389
Depreciation, amortisation and impairment losses	4.1–4.4	**-49 555**	-61 846
Other operating expenses	3.5	**-173 167**	-164 469
Share of result in associated companies	2.5	**8 750**	-1 657
Operating profit		**88 264**	75 358
Financial income	3.6	**10 108**	8 426
Financial expenses	3.6	**-11 630**	-11 939
Net financial expenses		**-1 522**	-3 513
Profit (-loss) before taxes		**86 743**	71 845
Income taxes	3.7	**-20 060**	-20 229
Profit (-loss) for the financial year		**66 683**	51 616

EUR 1 000	NOTE	2020	2019
Other comprehensive income (OCI)			
Items that may be reclassified to profit or loss in subsequent periods			
Foreign currency translation difference		**3 330**	-1 019
Change in fair value of hedging instruments	6.4	**-581**	2 262
Items that will not be subsequently reclassified to profit or loss			
Actuarial gains and losses from defined benefit plans	5.8	**-1 550**	-4 885
Changes in fair value of equity investments through OCI		**1 451**	1 012
Tax effect	3.7	**110**	881
Other comprehensive income (-loss), net of tax		**2 760**	-1 749
Total comprehensive income (-loss) for the year		**69 442**	49 867
Profit for the financial year attributable to			
Owners of the parent company		**66 683**	55 381
Non-controlling interest	2.3	**0**	-3 765
		66 683	51 616
Total comprehensive income for the year attributable to			
Owners of the parent company		**69 442**	53 632
Non-controlling interest	2.3	**0**	-3 765
		69 442	49 867

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

Consolidated Statement of Financial Position

EUR 1 000	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
ASSETS			
Non-current assets			
Goodwill	4.1, 4.2	**64 107**	62 143
Intangible assets	4.1	**11 080**	15 113
Tangible assets	4.3	**308 095**	306 736
Shares in associated companies	2.5	**71 681**	72 130
Other receivables	5.2	**1 980**	1 124
Non-current financial assets	6.2	**48 300**	56 595
Deferred tax assets	3.7	**7 984**	5 425
Total non-current assets		**513 229**	519 265
Current assets			
Inventories	5.1	**134 984**	129 972
Trade and other receivables	5.2	**134 520**	137 221
Other current financial assets	6.2–6.4	**208 414**	142 507
Income tax receivable		**7 343**	4 681
Cash and short-term deposits	5.3, 6.2	**83 149**	80 554
Total current assets		**568 411**	494 934
Assets held for sale	5.4	**724**	3 783
Total assets		**1 082 364**	1 017 982

EUR 1 000	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
EQUITY AND LIABILITIES			
Equity	6.1		
Share capital		**8 204**	8 204
Other equity		**682 930**	648 386
Equity attributable to equity holder of the parent		**691 133**	656 590
Non-controlling interest		**0**	-7 439
Total equity		**691 133**	649 150
Non-current liabilities			
Interest-bearing liabilities	5.7	**109 803**	105 496
Other non-current financial liabilities		**196**	129
Provisions	5.6	**3 559**	2 478
Net employee defined benefit liabilities	5.8	**30 152**	25 791
Deferred tax liabilities	3.7	**11 634**	12 004
Total non-current liabilities		**155 343**	145 898
Current liabilities			
Interest-bearing liabilities	5.7	**12 195**	12 851
Trade and other payables	5.5, 6.2–6.4	**208 701**	201 516
Income tax payable		**10 742**	4 317
Total current liabilities		**231 638**	218 684
Liabilities directly associated with the assets held for sale	5.4	**4 250**	4 250
Total liabilities		**391 231**	368 832
Total equity and liabilities		**1 082 364**	1 017 982

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

Consolidated Statement of Cash Flows

EUR 1 000	NOTE	2020	2019
Cash flows from operating activities			
Net profit (-loss) before taxes		**86 743**	71 845
Adjustments 1)		**28 973**	55 536
Change in net working capital:			
Change in trade and other receivables		**2 828**	5 404
Change in inventory		**-5 012**	-34 525
Change in trade and other payables		**7 250**	23 528
Dividends received		**9 199**	1 426
Interest received		**6 403**	5 737
Interest paid		**1 069**	-7 894
Other financial income and expenses, net		**-1 462**	-1 003
Income taxes paid		**-18 711**	-16 901
Cash flows from operating activities (A)		**117 279**	103 152
Cash flows from investing activities			
Investments in tangible and intangible assets	4.1–4.4	**-36 674**	-31 324
Proceeds from disposal of tangible assets		**16 721**	21 160
Investments in other investments (subsidiary acquisitions)		**-7 063**	0
Dividends received		**176**	165
Net cash flow from short-term investments		**-49 453**	-40 549
Cash flows from investing activities (B)		**-76 293**	-50 548
Cash flows from financing activities 2)			
Increase (-), decrease (+) in long-term receivables		**-879**	707
Dividends paid		**-20 397**	-21 116
Repayments of leasing liability	4.4	**-16 474**	-13 376
Cash flows from financing activities (C)		**-37 750**	-33 785

EUR 1 000	NOTE	2020	2019
Change in cash flows (A+B+C)		**3 235**	18 819
Cash and short-term deposits at 1 January	5.3	**80 554**	61 284
Net foreign exchange difference		**-640**	451
Cash and short-term deposits at 31 December	5.3	**83 149**	80 554
Change		**3 235**	18 819
1) Adjustments			
Depreciation, amortisations and impairments	4.1–4.4	**49 555**	61 846
Share of associated companies results	2.5	**-8 750**	1 657
Eliminated foreign exchange gains and losses		**-867**	211
Financial income and expenses	3.6	**1 522**	3 513
Other adjustments		**-12 488**	-11 691
Total		**28 973**	55 536

2) Changes in liabilities arising from financing activities

Cash flow from financing activities consists 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

EUR 1 000	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY										
	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 2019	**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	-165
Dividend								-21 116	-21 116		-21 116
Balance at 31 December 2019	**8 204**	**4 168**	**0**	**2 345**	**-1 754**	**-11 131**	**4 324**	**650 435**	**656 590**	**-7 439**	**649 150**
Profit for the period								66 683	66 683		66 683
Other comprehensive income											
Cash flow hedge, net of tax				-581					-581		-581
Change in fair value of equity instruments at FVOCI					1 161				1 161		1 161
Defined benefit plan actuarial gains and losses, net of tax					-1 150				-1 150		-1 150
Translation differences						3 330			3 330		3 330
Total comprehensive income				**-581**	**12**	**3 330**		**66 683**	**69 443**		**69 443**
Transactions with owners of the parent company											
Subsidiary acquisitions								-14 503	-14 503	7 439	-7 064
Dividend								-20 397	-20 397		-20 397
Balance at 31 December 2020	**8 204**	**4 168**	**0**	**1 764**	**-1 742**	**-7 801**	**4 324**	**682 217**	**691 133**	**0**	**691 133**

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 23 March 2021. 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 2020 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 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

Amendments and annual improvements to IFRS Standards

Amendments and annual improvements effective from the beginning of January 2020 have not had a major impact on Paulig Group's result, financial position or the presentation of the financial statement.

New and amended standards and interpretations to be applied

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements are not expected to have a material impact on Paulig Group's result, financial position or the presentation of the financial statement.

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 2020	GROUP OWNERSHIP %
In Finland	
Euroleasing Ltd	100
Gold&Green Foods Ltd	100
Gustav Paulig 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 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

31 DECEMBER 2020	GROUP OWNERSHIP %
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

Santa Maria Finland Ltd was merged with Gustav Paulig Ltd and Paulig Coffee Norway was merged with Santa Maria Norge AS in 2020. All the companies involved in mergers are 100% owned subsidiaries of Paulig Group.

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. During the year 2020 Paulig Group excercised its call option to purchase more shares in Gold&Green Foods Ltd. The Group's interest in Gold&Green Foods Ltd increased to 87.67% in January 2020 and to 100% in May 2020.

The financial information of Gold&Green Foods Ltd presented below are based on FAS financial statements as of 31 Decemebr 2019 and do not differ significantly from IFRS. The presented amounts correspond to the share held by non-controlling interest. At the year-end 2020 there was no non-controlling interest related to Gold&Green Foods Ltd, thus no figures are presented.

GOLD&GREEN FOODS LTD

EUR 1000	31 DECEMBER 2019
Proportion of shares held by non-controlling interest	48.7%
Current assets	1 018
Non-current assets	3 824
Current liabilities	1 810
Non-current liabilities	13 266
Revenue	2 416
Loss for the financial year	-3 764
Dividends paid to non-controlling interest	0

2.4 BUSINESS COMBINATIONS AND DISPOSALS

Business disposals

There have been no business disposals in Paulig Group during the financial year 2020.

Business combinations

There have been no business combinations in Paulig Group during the financial year 2020.

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 1000	31 DECEMBER 2020	31 DECEMBER 2019
FUCHS-Group*	**71 681**	72 130
Total	**71 681**	72 130

* 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	2020	2019
Current assets	**288 201**	263 642
Non-current assets	**190 768**	212 091
Equity	**231 736**	247 018
Liabilities	**247 233**	228 715
Revenue	**557 243**	522 157
Profit for the financial year*	**34 986**	-6 627
Dividends received from the associate	**9 199**	1 426
Group's share in equity – 25.01% (2019: 25.01%)	**57 957**	61 779
Domicile	**Germany**	Germany

* Adjusted with EUR 2.0 million (2019: EUR 2.0 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 is 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 1000	2020	2019
Revenue by market area		
Nordic countries	**491 332**	498 958
Continental Europe	**265 280**	245 105
United Kingdom and Ireland	**49 923**	54 144
Baltic countries	**57 108**	58 174
Russia	**49 337**	57 859
Other countries	**6 553**	7 152
Total*	**919 532**	921 392
Revenue by Business area		
Scandinavia & Central Europe	**283 240**	276 632
Finland & Baltics	**285 026**	301 738
East	**54 858**	62 626
Customer Brands	**286 154**	267 403
Other	**10 255**	12 993
Total*	**919 532**	921 392
Timing of revenue recognition		
At a point in time	**914 788**	915 233
Over time	**4 744**	6 159
Total*	**919 532**	921 392

* Revenue includes EUR -2.1 million (2019: EUR 0.8 million) realised exchange rate differences and EUR -0.1 million (2019: 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 the 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. Business Area Customer Brands 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	2020	2019
Sale of tangible assets*	**9 182**	15 153
Other income	**580**	907
Total	**9 762**	16 060

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

3.3 MATERIALS AND SERVICES

EUR 1 000	2020	2019
Materials and services		
Purchases during reporting period	**477 353**	522 781
Change in inventories	**-5 258**	-40 534
External services	**17 869**	19 486
Total *	**489 964**	501 733

* Materials and services include EUR 4.4 million (2019: EUR -2.7 million) realised exchange rate differencies and EUR -1.2 million (2019: EUR -0.4 million) unrealised exchange rate differencies.

3.4 EMPLOYEE BENEFIT EXPENSES AND NUMBER OF EMPLOYEES

EUR 1 000	2020	2019
Salaries and remuneration for Managing Directors and the members of the Board of Directors	**1 104**	997
Wages and salaries	**101 912**	94 638
Pension expenses – defined contribution plans	**8 748**	8 449
Pension expenses – defined benefit plans	**2 232**	2 161
Other personnel expenses	**23 098**	26 144
Total	**137 094**	132 389
Average number of employees		
Nordic countries	**956**	964
Central Europe	**692**	634
United Kingdom and Ireland	**117**	118
Baltic countries	**192**	203
Russia	**202**	196
Total	**2 160**	**2 115**

3.5 OTHER OPERATING EXPENSES

EUR 1 000	2020	2019
Energy	**8 355**	8 009
Rents and leases	**6 450**	6 835
Sales freights and logistics	**37 208**	34 403
External services	**25 156**	21 935
Marketing activities	**48 259**	50 518
Other expenses	**47 739**	42 769
Total	**173 167**	164 469
Auditor's fees		
Audit	**412**	383
Tax services	**39**	121
Other services	**423**	111
Total	**874**	615

3.6 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME

EUR 1 000	2020	2019
Dividend income	**176**	165
Interest income derivatives	**2 057**	2 769
Interest income other	**4 346**	2 968
Exchange rate gains and losses derivatives	**0**	-1 955
Exchange rate gains and losses other	**0**	2 166
Financial income on derivatives	**3 485**	1 488
Other financial income	**44**	825
Total	**10 108**	8 426

FINANCIAL EXPENSES

EUR 1 000	2020	2019
Interest expenses derivatives	**2 232**	3 008
Interest expenses other	**894**	544
Exchange rate gains and losses derivatives	**-5 676**	0
Exchange rate gains and losses other	**6 543**	0
Interest on lease liability	**4 195**	4 299
Financial expenses on derivatives	**2 968**	2 492
Other financial expenses	**474**	1596
Total	**11 630**	11 939
Financial income and expenses, net	**-1 522**	-3 513

Group's hedge accounting effectiveness testing was found to be effective thus no inefficiency is included in the financial items for 2020 nor 2019.

Exchange rate gains and losses in financial income consist of EUR 25.1 million (2019: EUR 10.5 million) realised exchange rate gains, EUR 163.7 million euro (2019: EUR 105.3 million) unrealised exchange rate gains, EUR -21.6 million (2019: EUR 12.3 million) realised exchange rate losses and EUR -168.0 million (2019: EUR 103.2 million) unrealised exchange rate losses. Net result of total exchange rate gains is included in the financial income (net result of total exchange losses is included in financial expenses).

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	2020	2019
Current tax for the reporting year	**-21 977**	-20 990
Current tax adjustments for prior years	**-497**	182
Changes in deferred taxes	**2 414**	579
Total	**-20 060**	-20 229

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

EUR 1 000	2020	2019
Profit before tax	**86 743**	71 845
Tax calculated using Finnish tax rate 20%	**-17 349**	-14 369
Effect of tax rate in foreign subsidiaries	**1 411**	-1 363
Non-deductible expenses	**-3 052**	-1 709
Tax-free income	**914**	671
Effect of current year losses	**-4 243**	-2 584
Other differences	**-602**	-5
Previous years taxes	**-497**	182
Changes in deferred taxes	**2 414**	579
Effect of consolidation entries	**944**	-1 631
Income taxes in the statement of comprehensive income	**-20 060**	-20 229
Effective tax rate %	**23.1%**	28.2%
Other comprehensive income		
Tax effects in other comprehensive income	**110**	881
Total	**-19 950**	-19 348

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.

2020 EUR 1 000	1 JANUARY 2020	RECOGNISED THROUGH PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	EXCHANGE RATE DIFFERENCES	31 DECEMBER 2020
Deferred tax assets					
Tangible and intangible assets	724	1 273		31	**2 028**
Employee benefits	3 610	161	401	2	**4 174**
Inventory	115	-16		3	**102**
Other temporary differences	977	357		347	**1 681**
Total deferred tax assets	**5 425**	**1 775**	**401**	**383**	**7 984**

Deferred tax liabilities					
Tangible and intangible assets	7 950	-1 190			**6 760**
Financial assets	877	413	290		**1 580**
Depreciation difference and optional provisions	2 780	-40		4	**2 744**
Other temporary differences	397	178		-27	**549**
Total deferred tax liabilities	**12 004**	**-638**	**290**	**-22**	**11 634**

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**
Internal margins	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**

At 31 December 2020 there is a total of EUR 42.9 million (2019: EUR 24.2 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 2030 for EUR 37.5 million. The remaining EUR 5.4 million derives from UK and Sweden 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 8.6 million (2019: EUR 4.8 million).

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

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 an intangible asset is 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 2020	67 752	26 351	26 003	**120 106**
Exchange rate differences	1 964	569	522	**3 055**
Additions		709	1 446	**2 155**
Disposals		-90		**-90**
Transfers			186	**186**
Acquisition cost 31 December 2020	69 716	27 539	28 157	**125 412**
Accumulated amortisation and impairment losses 1 January 2020	-5 609	-24 289	-12 955	**-42 852**
Correction to opening balance			2	**2**
Exchange rate differences		-587	-377	**-964**
Depreciation on disposals and transfers		50	19	**69**
Depreciation for the reporting period		-597	-4 734	**-5 331**
Impairment		-1 148	0	**-1 148**
Accumulated amortisation and impairment losses 31 December 2020	-5 609	-26 570	-18 045	**-50 225**
Carrying amount 1 January 2020	**62 143**	**2 063**	**13 048**	**77 254**
Carrying amount 31 December 2020	**64 107**	**969**	**10 112**	**75 188**
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**

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 is required in the preparation of these calculations. Estimates are based on budgets and forecasts which contain some degree of uncertainty. The main uncertainties relate 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.

For the purpose of impairment testing, goodwill acquired in a business combination has been allocated to the business areas. CGUs for the yearly testing are BA Finland & Baltics, BA Scandinavia & Central Europe and BA Customer Brands.

CARRYING AMOUNT OF GOODWILL ALLOCATED TO EACH OF THE CGUS

EUR 1 000 CASH GENERATING UNITS	31 DECEMBER 2020 GOODWILL	31 DECEMBER 2020 DISCOUNT RATE % (WACC)	31 DECEMBER 2019 GOODWILL	31 DECEMBER 2019 DISCOUNT RATE % (WACC)
BA Finland & Baltics	8 184	7.0	8 184	4.7
BA Scandinavia & Central Europe	52 098	6.2	50 134	4.5
BA Customer Brands	3 825	6.7	3 825	4.8
Total	**64 107**		**62 143**	

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. 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 the 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 5.4% 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 the sensitivity analysis, the headroom turned negative when EBITDA was decreased by 61% of the planned level or discount rate was increased to 50.7%.

For BA Scandinavia & Central Europe CAGR-% used in cash flow projection is 2.4% reflecting expected growth in sales of Tex Mex products. Based on the sensitivity analysis, the headroom turned negative when EBITDA was decreased by 34% of the planned level or discount rate was increased to 16.3%.

For BA Customer Brands CAGR-% used in cash flow projection is 0.2% reflecting increased demand for private label products. Recoverable amount for BA Customer Brands is well above the carrying value of assets. Based on the sensitivity analysis, the headroom turned negative when EBITDA was decreased by 35% of the planned level or discount rate was increased to 23.3%.

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 2020	15 489	215 781	337 118	12 715	**581 102**
Exchange rate differences	-87	598	-1 021	-284	**-794**
Additions		21 188	14 014	18 835	**54 038**
Disposals		-3 229	-15 492		**-18 721**
Change in transfer of assets held for sale	1 470				**1 470**
Transfers			9 276	-9 462	**-186**
Acquisition costs 31 December 2020	16 872	234 338	343 895	21 804	**616 909**
Accumulated depreciation and impairment losses 1 January 2020		-52 281	-222 085		**-274 366**
Exchange rate differences		-211	-151		**-362**
Accumulated depreciation on disposals		913	8 097		**9 010**
Depreciation for the reporting period		-14 355	-22 175		**-36 531**
Impairment		-1 900	-4 220	-426	**-6 546**
Transfers		-19			**-19**
Accumulated depreciation and impairment losses 31 December 2020		-67 853	-240 534	-426	**-308 813**
Carrying amount 1 January 2020	**15 489**	**163 500**	**115 033**	**12 715**	306 736
Carrying amount 31 December 2020	**16 872**	**166 485**	**103 361**	**21 378**	308 095
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

RIGHT-OF-USE ASSETS INCLUDED IN TANGIBLE ASSETS

EUR 1 000	BUILDINGS AND CONSTRUCTIONS*	MACHINERY AND EQUIPMENT	TOTAL
Acquisition cost 1 January 2020	129 390	12 628	**142 018**
Correction to opening balance		8	**8**
Exchange rate differences	2 154	-49	**2 104**
Additions	16 628	2 869	**19 497**
Disposals	-3 052	-2 050	**-5 102**
Acquisition costs 31 December 2020	145 119	13 406	**158 525**
Accumulated depreciation and impairment losses 1 January 2020	-20 541	-5 730	**-26 271**
Exchange rate differences	-562	29	**-534**
Accumulated depreciation on disposals	913	1 114	**2 027**
Depreciation for the reporting period	-10 436	-2 813	**-13 249**
Impairment	-1 569	-258	**-1 827**
Accumulated depreciation and impairment losses 31 December 2020	-32 196	-7 658	**-39 854**
Carrying amount 1 January 2020	**108 849**	**6 898**	**115 747**
Carrying amount 31 December 2020	**112 924**	**5 748**	**118 672**
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**

* 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 consist 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 2020 (2019: 1.83%). 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 2020	31 DECEMBER 2019
Buildings and constructions	**112 924**	108 849
Machinery and equipment	**5 748**	6 898
Total	**118 672**	115 747

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 2019	**12 272**	**113 236**
New contracts	1 250	3 224
Modifications to contracts	324	2 154
Cash flows	-13 376	0
Reclassification between short-term and long-term liabilities	12 381	-13 118
As at 31 December 2019	**12 851**	**105 496**
New contracts	858	2 183
Modifications to contracts	1 430	14 061
Cash flows	-16 474	0
Reclassification between short-term and long-term liabilities	13 530	-11 937
As at 31 December 2020	**12 195**	**109 803**

The most significant individual lease agreement in the Group is the rent agreement over coffee roastery in Helsinki. The right-of-use asset as of 31 Decemeber 2020 amounted EUR 55.7 million 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 59.3 million.

AMOUNTS RECOGNISED IN PROFIT OR LOSS

EUR 1 000	2020	2019
Depreciation expense of right-of-use assets	**15 207**	13 273
Interest expenses on lease liabilities	**4 195**	4 299
Expenses – short-term leases	**1 155**	624
Expenses – leases of low-value assets	**696**	779
Total amount recognised in profit or loss	**21 253**	18 975

There were no lease expenses relating to variable lease payments not included in lease liabilities during the years 2020 and 2019.

GROUP AS LESSOR

FINANCE LEASE RECEIVABLES

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Non-current	**0**	377
Current	**399**	1 123
Total	**399**	1 500

MATURITY OF LEASE RECEIVABLES AS OF 31 DECEMBER 2020

EUR 1 000	< 1 YEAR	1–5 YEARS	> 5 YEARS	TOTAL
Finance lease receivables	399	0	0	399
Operating lease receivables	630	0	0	630
Total	**1 029**	**0**	**0**	**1 029**

AMOUNTS RECOGNISED IN PROFIT OR LOSS

EUR 1 000	2020	2019
Operating lease income	**1 526**	1 616
Interest income on finance leases	**9**	20
Total amount recognised in profit or loss	**1 535**	1 636

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 value 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 2020	31 DECEMBER 2019
Materials and consumables	**67 800**	66 289
Work in progress	**1 230**	1 153
Finished goods	**67 884**	64 923
Provision for obsolete inventory	**-1 930**	-2 393
Total	**134 984**	129 972

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 2020	31 DECEMBER 2019
Trade receivables	**122 009**	121 554
Receivables from associated companies	**330**	192
Allowance for expected credit losses	**-283**	-420
Total trade receivables	**122 056**	121 326
Other receivables	**12 464**	15 895
Total trade and other receivables	**134 520**	137 221

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 0.015% out of total net sales during financial years 2020 and 2019. 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 41% of the Group's trade receivables at the year end 2020 (2019: 40%) the risk of material credit losses is deemed to be very low. Expected credit losses for year end 2020 amounted to EUR 0.3 million (2019: EUR 0.4 million). Due to the immaterial amount of expected credit losses no separate provision matrix of allocating the amount to days past due is presented.

OTHER RECEIVABLES IN CURRENT ASSETS

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
VAT receivable	**4 359**	3 719
Finance lease receivable	**399**	1 123
Employee benefits	**0**	523
Derivative instruments	**1 895**	2 667
Other receivables	**5 811**	7 863
Total other receivables	**12 464**	15 895

OTHER RECEIVABLES IN NON-CURRENT ASSETS

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Finance lease receivable	**0**	377
Employee benefits	**789**	0
Other receivables	**1 191**	747
Total other receivables	**1 980**	1 124

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 2020	31 DECEMBER 2019
Cash and bank	**73 025**	70 436
Short-term deposits	**10 124**	10 118
Total	**83 149**	80 554

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 2020	31 DECEMBER 2019
Land areas	**724**	3 783
Total	**724**	3 783

LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Advance payments related to assets held for sale	**4 250**	4 250
Total	**4 250**	4 250

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 2020 have been classified as assets held for sale at the end of year 2019. Paulig group gained EUR 8.6 million profit for the sales of land areas during year 2020. The land areas for which the sell is highly probably during the year 2021 are classified as assets held for sale at the end of year 2020. The expected sales price approximate EUR 4.6 million with a expected profit of EUR 3.9 million. The land areas are measured at their carrying amounts.

5.5 TRADE AND OTHER PAYABLES

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Trade payables	**130 209**	133 675
Other payables	**78 492**	67 841
Total	**208 701**	201 516

SPECIFICATION FOR OTHER PAYABLES IN CURRENT LIABILITIES

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Accrued personnel expenses	**19 522**	17 687
Annual discounts to customers	**22 440**	18 905
VAT payables	**5 596**	5 691
Derivative instruments	**6 460**	9 555
Other	**24 474**	16 003
Total	**78 492**	67 841

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 2020	**2 464**	**14**	**2 478**
Additions	1 018	100	**1 118**
Exchange rate differences	-37	0	**-37**
31 December 2020	**3 445**	**114**	**3 559**

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 2020	31 DECEMBER 2019
Non-current liabilities		
Lease liabilities	**109 803**	105 496
Total	**109 803**	105 496
Current liabilities		
Lease liabilities	**12 195**	12 851
Total	**12 195**	12 851

Paulig Group interest-bearing liabilities consist of lease liabilities. Accounting principle for lease liabilities is described in note 4.4 Leases. Maturity of lease liabilities 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. Re-measurements 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 2020	31 DECEMBER 2019
Voluntary Insurance plan in Finland	**789**	523
Post-employment benefit plan Belgium	**658**	9
Jubilee plans	**2 009**	1 988
ITP2 pension plan in Sweden	**26 696**	23 271
Total defined benefit liability (+) /asset (-)	**30 152**	25 791

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 and defined contribution 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 2020 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	2020	2019
Current service cost	**1 766**	1 669
Interest cost (+) income (-) on benefit obligation	**466**	492
Total	**2 232**	2 161

AMOUNTS RECOGNISED THROUGH OTHER COMPREHENSIVE INCOME

EUR 1 000	2020	2019
Experience adjustments	**621**	604
Actuarial gains (-) / losses(+) from changes in financial assumptions	**1 195**	4 464
Other gains (-) / losses (+)	**-266**	-182
Remeasurements in other comprehensive income	**1 550**	4 885

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

EUR 1 000	2020	2019
Defined benefit obligation at 1 January	**28 521**	22 182
Current service cost	**1 817**	1 629
Interest cost	**470**	540
Expense recognized in income statement	**2 287**	2 169
Changes in actuarial assumptions	**1 183**	4 607
Experience adjustment	**621**	487
Remeasurement recognised through OCI	**1 804**	5 094
Benefits paid	**-585**	-606
Exchange difference	**957**	-318
Defined benefit obligation at 31 December	**32 984**	28 521

CHANGES IN FAIR VALUE OF PLAN ASSETS

EUR 1 000	2020	2019
Fair value of plan assets at 1 January	**2 730**	2643
Current service cost	**51**	-40
Interest income	**4**	48
Items recognised through profit and loss	**55**	9
Actuarial gains/losses (-)	**-12**	26
Items recognised through OCI	**-12**	26
Contributions paid	**396**	430
Benefits paid	**-336**	-378
Fair value of plan assets at 31 December	**2 833**	2 730

VOLUNTARY INSURANCE PLAN ASSETS ARE COMPRISED AS FOLLOWS

%	31 DECEMBER 2020	31 DECEMBER 2019
Listed shares	**50**	50
Debt instruments	**50**	50
	100	100

DEFINED BENEFIT PLANS PRINCIPAL ACTUARIAL ASSUMPTIONS

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Discount rate		
Voluntary insurance plan in Finland	**-0.10%**	0.60%
ITP2 pension plan in Sweden	**1.30%**	1.70%
Post-employment benefit plan Belgium	**0.30%**	
Rate of salary increase		
Voluntary insurance plan in Finland	**1.90%**	1.10%
ITP2 pension plan in Sweden	**3.00%**	3.00%
Post-employment benefit plan Belgium	**1.80%**	
Rate of inflation		
Voluntary insurance plan in Finland	**0.70%**	1.10%
ITP2 pension plan	**1.50%**	1.80%
Post-employment benefit plan Belgium	**1.80%**	
Life expectation for pensioners at the age of 65:	**Years**	**Years**
Voluntary insurance plan		
Male	**21.4**	21.4
Female	**25.4**	25.4
ITP2 pension plan in Sweden		
Male	**22**	22
Female	**24**	24

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

The weighted average duration of defined benefit obligation is 16 years. The weighted average duration is calculated with discount rate -0.10%.

EUR 1 000	FUTURE BENEFIT PAYMENTS (UNDISCOUNTED DEFINED BENEFIT OBLIGATION)
Maturity under 1 year	0
Maturity1–5 years	83
Maturity 5–10 years	338
Maturity 10–15 years	304
Maturity 15–20 years	149
Maturity 20–25 years	87
Maturity 25–30 years	77
Maturity over 30 years	158
Total	**1 195**

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) 2020	2019
Discount rate %	+0.50%	**-96**	-81
	-0.50%	**110**	93
Salary increase	+0.50%	**51**	45
	-0.50%	**-49**	-42

Change in mortality basis so that life expectancy will increase by one year increases net liability 22,506€ (2.9%). Last period the change was 18,718€ (3.6%). 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) 2020	2019
Discount rate %	+0.50%	**-3 230**	-2 834
	-0.50%	**3 761**	3 303
Salary increase	+0.50%	**2 055**	1 745
	-0.50%	**-1 775**	-1 507
Inflation	+0.50%	**2 507**	2 215
	-0.50%	**-2 240**	-1 974
Life expectancy	+ 1 year	**1 196**	1 037
	- 1 year	**-1 189**	-1 032

The average duration of the defined benefit plan obligation at the end of the reporting period is 24 years (2019: 25 years).

POST-EMPLOYMENT BENEFIT PLAN BELGIUM

ACTUARIAL ASSUMPTIONS	CHANGE IN ASSUMPTION	CHANGE IN DEFINED BENEFIT OBLIGATION EUR (1 000) 2020
Discount rate %	+0.50%	**-220**
	-0.50%	**251**

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 2019	487 765	15 000	**502 765**	**8 204**
31 December 2019	487 765	15 000	**502 765**	**8 204**
1 January 2020	487 765	15 000	**502 765**	**8 204**
31 December 2020	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 2020 totalled EUR 8 203 618.40, 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 41.80 per share.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR 1 000	2020	2019
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	**0**	161
Change for the financial year	**0**	-161
Revaluation fund on 31 December	**0**	0
Cash flow hedge fund on 1 January	**2 345**	83
Change for the financial year	**-581**	2 262
Cash flow hedge fund on 31 December	**1 764**	2 345
Foreign currency translation fund on 1 January	**-11 131**	-10 112
Change for the financial year	**3 330**	-1 019
Foreign currency translation fund on 31 December	**-7 801**	-11 131

EUR 1 000	2020	2019
Other OCI items on 1 January	**-1 754**	1 239
Changes for the financial year	**12**	-2 994
Other OCI items on 31 December	**-1 742**	-1 754
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	**650 435**	616 170
Dividend	**-20 397**	-21 116
Other change for the financial year	**-14 503**	0
Retained earnings on 31 December	**615 535**	595 054
Profit for the period	**66 683**	55 381
Total shareholders' equity on 31 December	**691 133**	656 591

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.

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 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 2020 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		41 781		**41 781**	**41 781**	1
Equity securities	5 446	610		**6 056**	**6 056**	1.3
Convertible loan			463	**463**	**463**	3
Current financial assets						
Trade receivables			122 056	**122 056**	**122 056**	2
Commercial papers		14 483		**14 483**	**14 483**	2
Bonds		7 514		**7 514**	**7 514**	1
Bond funds		182 632		**182 632**	**182 632**	1
Derivative financial instruments	2 500	1 285		**3 785**	**3 785**	2
Cash and bank			73 025	**73 025**	**73 025**	1
Short-term deposits			10 124	**10 124**	**10 124**	1
Total financial assets	**7 946**	**248 305**	**205 668**	**461 919**	**461 919**	
Non-current financial liabilities						
Lease liabilities			109 803	**109 803**	**109 803**	2
Other non-interest-bearing liabilities			196	**196**	**196**	3
Current financial liabilities						
Lease liabilities			12 195	**12 195**	**12 195**	2
Derivative financial instruments	2 816	3 621		**6 437**	**6 437**	2
Trade payables			130 209	**130 209**	**130 209**	2
Total financial liabilities	**2 816**	**3 621**	**252 403**	**258 840**	**258 840**	

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**	

TOTAL FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Financial assets		
Level 1	**320 522**	251 475
Level 2	**140 324**	149 347
Level 3	**1 073**	161
Total	**461 919**	400 983

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Financial liabilities		
Level 1		
Level 2	**258 644**	260 627
Level 3	**196**	129
Total	**258 840**	260 756

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 2020 nor 2019.

Investments in equity instruments

Paulig Group has made an irrevocable election to recognize 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 2019	**2 982**
Remeasurement recognised in OCI	1 012
Purchases	0
Sales	0
Fair value as at 31 December 2019	**3 994**
Remeasurement recognised in OCI	1 452
Purchases	0
Sales	0
Fair value as at 31 December 2020	**5 446**

Paulig Group received EUR 0.16 million dividend from Kesko Oyj during year 2020 (2019: EUR 0.15 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. Treasury is also responsible of investing excess liquidity. 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.

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 2020 and 2019 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 231.9 million at the end of year 2020 (2019: EUR 166.9 million).

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

31 DECEMBER 2020 EUR 1 000	USD	RUB	SEK	NOK
Next 12 months forecast foreign currency cash flow	160 557	-25 426	-2 837	-29 746
Cash flow, hedges at 31 December 2020	-81 004	6 927	4 801	11 986
Total exposure	**79 553**	**-18 499**	**1 964**	**-17 760**

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**

A 10% adverse change in the foreign currency exchange rates above would result loss of EUR 23.1 million (2019: EUR 26.7 million) in net result and equity, based on forecasted cash flow. Net result of open foreign exchange contracts would result gain of EUR 10.3 million (2019: EUR 8.6 million). Adverse change refers weakening of the currency, except in the case of USD.

MATURITY OF THE GROUP'S FINANCIAL LIABILITIES AND TRADE PAYABLES

31 DECEMBER 2020 EUR 1 000	2021	2022	2023	2024	2025	LATER
Leasing liabilities*	12 195	10 194	9 004	7 717	5 986	76 902
Derivative liabilities	6 437					
Trade payables	130 209					
Total	**148 841**	**10 194**	**9 004**	**7 717**	**5 986**	**76 902**

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**

* Leasing liabilities include interest payments.

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

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
HEDGING GAINS AND LOSSES 2020					
Derivatives hedge accounted					
Commodity derivatives	-581	10 593	Material and services		
Derivatives outside hedge accounting					
Commodity derivatives				-87	Financial expenses
Currency derivatives				1 419	Financial income
Currency derivatives				-2 881	Financial expenses
HEDGING GAINS AND LOSSES 2019					
Derivatives hedge accounted					
Commodity derivatives	2 261	1 811	Material and services		
Derivatives outside hedge accounting					
Commodity derivatives				-89	Financial income
Currency derivatives				1 489	Financial income
Currency derivatives				-2 403	Financial expenses

Hedging is verified to be effective, no ineffectiveness has 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 2020 POS.	NEG.	NET	31 DECEMBER 2019 POS.	NEG.	NET
Derivatives in hedge accounting						
Commodity derivatives, cash flow hedges	2 500	2 816	-316	1 540	7 050	-5 510
Derivatives not in hedge accounting						
Foreign exchange derivatives, not in hedge accounting	1 180	3 621	-2 441	508	1 519	-1 011
Commodity derivatives, not in hedge accounting	105	0	105	37	36	1
Total	**3 785**	**6 437**	**-2 652**	**2 085**	**8 605**	**-6 520**

Positive (negative) fair value of hedging instruments on 31 Dec 2020 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	31 DECEMBER 2020 NOMINAL	31 DECEMBER 2019 NOMINAL
Nominal values of derivative financial instruments		
Commodity derivatives and foreign exchange derivatives	**311 169**	230 431

The maturity for all open derivatives is under 12 months as of 31 December 2020.

6.5 CONTINGENT LIABILITIES AND OTHER COMMITMENTS

EUR 1 000	31 DECEMBER 2020	31 DECEMBER 2019
Guarantees		
Other guarantees for own commitments	**6 249**	6 959
Other commitments		
Repurchase commitments of coffee machines	**319**	334
Commitments for purchase of tangible assets	**2 274**	
Leases not yet commenced to which Paulig is committed	**6**	1 302
Total contingent liabilities and other commitments	**8 848**	8 595

7. OTHER NOTES

7.1 RELATED PARTY TRANSACTIONS

Paulig Group related parties consist 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	2020	2019
Salaries and other short-term benefits	**3 393**	3 240
Post-employment benefits	**1 051**	1 140
Other long-term benefits	**122**	349
Termination benefits	**0**	207
Total	**4 566**	4 936

During the year 2020 Paulig Group paid EUR 0.35 million (2019: EUR 0.65 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 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2019: 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	**2020**				**59 300**
	2019				60 056
Fuchs Group Companies	**2020**	**2 807**	**98**	**330**	**14**
	2019	1 115	84	192	15

7.2 EVENTS AFTER THE REPORTING PERIOD

The company continues to monitor the pandemic closely and proactively takes measures concerning its possible implications to the business. As the pandemic continues, the negative effect to the revenue in the out-of-home channel is also expected to continue. The processes for merging Paulig Coffee Sweden AB and Risenta AB with Santa Maria AB have been started and the mergers are expected to be completed during 2021. There have been no other significant events after the reporting period.

Parent company's income statement

EUR 1 000	NOTE	1 JANUARY 2020– 31 DECEMBER 2020	1 JANUARY 2019– 31 DECEMBER 2019
Net sales	1	**17 143**	14 909
Other operating income	2	**11 143**	17 709
Personnel expenses	3	**-8 192**	-7 640
Depreciation and value adjustments	4	**-627**	-673
Other operating expenses	5	**-22 877**	-17 342
		-31 696	-25 655
Operating profit		**-3 410**	6 963
Financial income and expenses	6		
Dividend income on long-term financial assets		**162**	152
Interest income and other financial income		**1**	8
Interest expenses and other financial expenses		**-1 533**	-1 561
		-1 371	-1 402
Profit before appropriations and taxes		**-4 781**	5 561
Appropriations	7		
Change in depreciation difference		**0**	5
Group contribution		**30 000**	20 000
Income taxes	8	**-5 334**	-5 139
Net profit for the financial year		**19 885**	20 427

The figures for 2019 have been regrouped to be aligned with the grouping in 2020.

Parent company's balance sheet

EUR 1 000	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
Assets			
Fixed assets	9		
Intangible assets			
Intangible rights		**7**	25
Other long-term expenses		**888**	974
Advanced payments		**398**	0
		1 293	998
Tangible assets			
Land and water		**3 060**	4 649
Buildings and constructions		**1 650**	1 736
Machinery and equipment		**95**	108
		4 804	6 494
Long-term financial assets	10		
Shares in associated companies		**312 705**	312 705
Other shares		**1 654**	1 337
Other receivables		**1 522**	1 522
		315 881	315 565
Total fixed assets		**321 979**	323 057
Current assets			
Long-term receivables			
Loan receivables		**463**	0
Short-term receivables	11		
Accounts receivable		**1**	14
Receivables from group companies		**36 200**	36 161
Other receivables		**45**	156
Accruals and deferred income		**538**	746
		36 785	37 077
Total current assets		**37 248**	37 077
Total		**359 227**	360 134

EUR 1 000	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
Shareholders' equity and liabilities			
Shareholders' equity	12		
Share capital		**8 204**	8 204
Premium fund		**3 058**	3 058
Reserve fund		**76**	76
Reserve for invested non-restricted equity		**4 050**	4 050
Retained earnings		**159 489**	159 459
Net profit for the financial year		**19 885**	20 427
Total shareholders' equity		**194 762**	195 274
Provisions		**100**	0
Liabilities	14		
Long-term liabilities			
Interest bearing liabilities		**147 856**	147 856
		147 856	147 856
Current liabilities			
Received advanced payments		**4 250**	4 250
Accounts payable		**815**	1 084
Liabilities to group companies		**0**	7 084
Other liabilities		**910**	129
Accruals and deferred expenses		**10 533**	4 456
		16 509	17 003
Total liabilities		**164 365**	164 860
Total		**359 227**	360 134

Parent company's cash flow statement

EUR 1 000	NOTE	2020	2019
Cash flow from operating activities			
Profit after financial items		**-4 781**	5 561
Adjustments, total	16	**-6 793**	-13 017
Operating profit before change in net working capital		**-11 574**	-7 456
Change in net working capital	16	**6 250**	-11 272
Cash generated from operations		**-5 324**	-18 728
Interest received		**1**	8
Interest paid		**-1 525**	-1 556
Income taxes paid		**-4 061**	-1 544
Net cash flow from operating activities		**-10 909**	-21 821
Cash flow from investing activities			
Capital expenditures		**-822**	-7 737
Purchase of other shares		**-130**	0
Proceeds from sale of fixed assets		**10 186**	24 201
Proceeds from sales of other shares		**0**	415
Increase (-), decrease (+) in long-term receivables		**-463**	0
Dividends received		**162**	152
Net cash flow from investing activities		**8 932**	17 031

EUR 1 000	NOTE	2020	2019
Cash flow from financing activities			
Received advanced payments		**0**	4 250
Group contribution		**30 000**	20 000
Increase (-), decrease (+) in short-term receivables		**-6 150**	0
Increase (+), decrease (-) in short-term liabilities		**-1 475**	1 657
Dividends paid		**-20 397**	-21 116
Net cash flow from financing activities		**1 978**	4 791
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.

Parent Company's Accounting Principles

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

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
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

1. NET SALES

EUR 1 000	31.12.2020	31.12.2019
Net sales by market area		
Nordic countries	**11 023**	9 606
Continental Europe	**4 456**	3 561
United Kingdom and Ireland	**858**	878
Baltic countries	**805**	863
Total	**17 143**	14 909

2. OTHER OPERATING INCOME

EUR 1 000	31.12.2020	31.12.2019
Profit on sales of other fixed assets	**8 596**	14 677
Other income	**2 547**	3 032
Total	**11 143**	17 709

The figures for 2019 have been regrouped to be aligned with the grouping in 2020.

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

EUR 1 000	31.12.2020	31.12.2019
Personnel expenses		
Salaries and remuneration for Managing Directors and the members of the Board of Directors	**993**	873
Other wages and salaries	**5 954**	5 581
Pension expenses	**1 031**	1 040
Other personnel expenses	**214**	146
Total	**8 192**	7 640
Average number of personnel		
Nordic countries	**42**	40
Total	**42**	40

4. DEPRECIATION AND VALUE ADJUSTMENTS

EUR 1 000	31.12.2020	31.12.2019
Depreciation on tangible assets	**100**	101
Depreciation on intangible assets	**527**	573
Total	**627**	674

5. FEES FOR AUDITING COMPANIES

EUR 1 000	31.12.2020	31.12.2019
Ernst & Young		
Statutory auditing fees	**156**	46
Tax consulting	**0**	15
Other fees	**293**	76
Others		
Tax consulting	**54**	11
Other fees	**635**	554
Total	**690**	565

6. FINANCIAL INCOME AND EXPENSES

EUR 1 000	31.12.2020	31.12.2019
Dividend income		
From others	**162**	152
Total	**162**	152
Interest income and other financial income		
From others	**1**	8
Total	**1**	8
Interest expenses and other financial expenses		
To group companies	**1 503**	1 536
To others	**30**	25
Total	**1 533**	1 561

7. APPROPRIATIONS

EUR 1 000	31.12.2020	31.12.2019
Change in depreciation difference	**0**	5
Group contribution	**30 000**	20 000
Total	**30 000**	20 005

8. INCOME TAXES

EUR 1 000	31.12.2020	31.12.2019
Income tax on ordinary business	**666**	-1 139
Income tax on group contributions	**-6 000**	-4 000
Total	**-5 334**	-5 139

9. FIXED ASSETS

EUR 1 000	31.12.2020	31.12.2019
Intangible rights		
Acquisition cost on 1 January	**461**	461
Acquisition cost on 31 December	**461**	461
Accumulated depreciation on 1 January	**-436**	-406
Depreciation of the financial year	**-17**	-30
Accumulated depreciation on 31 December	**-453**	-436
Book value on 31 December	**7**	25
Other long term expenses		
Acquisition cost on 1 January	**3 406**	3 353
Increase	**424**	53
Acquisition cost on 31 December	**3 830**	3 406
Accumulated depreciation on 1 January	**-2 432**	-1 890
Depreciation of the financial year	**-510**	-542
Accumulated depreciation on 31 December	**-2 942**	-2 432
Book value on 31 December	**888**	974

EUR 1 000	31.12.2020	31.12.2019
Advanced payments		
Acquisition cost on 1 January	**0**	0
Increase	**398**	0
Book value on 31 December	**398**	0
Land and water		
Acquisition cost on 1 January	**4 649**	6 650
Increase	**0**	7 684
Decrease	**-1 589**	-9 685
Book value on 31 December	**3 060**	4 649
Buildings and constructions		
Acquisition cost on 1 January	**2 517**	2 517
Decrease	**-359**	0
Acquisition cost on 31 December	**2 158**	2 517
Accumulated depreciation on 1 January	**-781**	-695
Depreciation of the financial year	**-86**	-86
Accumulated depreciation and value adjustments related to decreases and transfers	**359**	0
Accumulated depreciation on 31 December	**-508**	-781
Book value on 31 December	**1 650**	1 736
Machinery and equipment		
Acquisition cost on 1 January	**377**	377
Acquisition cost on 31 December	**377**	377
Accumulated depreciation on 1 January	**-268**	-254
Depreciation of the financial year	**-14**	-14
Accumulated depreciation on 31 December	**-282**	-268
Book value on 31 December	**95**	108

EUR 1 000	31.12.2020	31.12.2019
Revaluations		
Above mentioned book values include revaluations as follows:		
Land and water		
Value on 1 January	**224**	1 694
Decrease	**-137**	-1 470
Value on 31 December	**87**	224

10. FINANCIAL ASSETS

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	**1 337**	1 342
Increase	**450**	0
Decrease	**-133**	-5
Book value on 31 December	**1 654**	1 337
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	**2 216**	2 115

11. RECEIVABLES

Long-term receivables		
From others		
Loan receivables	**463**	0
Total	**463**	0

EUR 1 000	31.12.2020	31.12.2019
Short-term receivables		
From group companies		
Accounts receivable	**50**	32
Other receivables	**36 150**	36 129
Total	**36 200**	36 161
Main items included in accruals and deferred income		
Accrued personnel expenses	**1**	0
Other	**537**	746
Total	**538**	746

12. SHAREHOLDERS' EQUITY

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	**0**	161
Change for the financial year	**0**	-161
Revaluation fund on 31 December	**0**	0
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

EUR 1 000	31.12.2020	31.12.2019
Retained earnings on 1 January	**179 886**	180 575
Profit distribution	**-20 397**	-21 116
Retained earnings on 31 December	**159 489**	159 459
Net profit for the financial year	**19 485**	20 427
Total shareholders’ equity	**194 362**	195 274
Distributable equity		
Retained earnings from previous periods 31.12.	**159 489**	159 459
Reserve for invested non-restricted equity	**4 050**	4 050
Net profit for the financial year	**19 485**	20 427
Distributable equity	**183 024**	183 936

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

13. PROVISIONS

Other mandatory provisions	**100**	0
Total	**100**	0

14. LIABILITIES

Long-term liabilities

To group companies		
Other liabilities	**147 856**	147 856
Total	**147 856**	147 856

Short-term liabilities

To group companies		
Other liabilities	**0**	7 084
Total	**0**	7 084

EUR 1 000	31.12.2020	31.12.2019
To others		
Advances received	**4 250**	4 250
Accounts payable	**815**	1 084
Other liabilities	**910**	129
Accruals and deferred expenses	**10 533**	4 456
Total	**16 509**	9 919
Main items included in accruals and deferred expenses		
Accrued personnel expenses	**1 222**	1 131
Income tax liability	**2 541**	1 267
Other	**6 771**	2 057
Total	**10 533**	4 456

15. CONTINGENT LIABILITIES

Other guarantees on behalf of group companies		
Guarantees given	**45 000**	60 000
Total	**45 000**	60 000
Other liabilities		
Guarantee commitments	**4 250**	4 250
Total	**4 250**	4 250
Leasing liabilities		
Leasing liabilities, which mature within one year	**627**	906
Leasing liabilities, which mature after one year	**446**	919
Total	**1 073**	1 824

EUR 1 000 | 31.12.2020 | 31.12.2019

16. CASH FLOW STATEMENT

The items in the 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	31.12.2020	31.12.2019
Depreciation	**627**	673
Sales gains and losses on fixed assets	**-8 596**	-14 677
Other financial items	**1 362**	1 397
Other income and expenses	**-186**	-410
Total	**-6 793**	-13 017
Change in net working capital		
Increase (-), decrease (+) in short-term receivables	**16 268**	-16 423
Increase (+), decrease (-) in non interest bearing short-term liabilities	**-10 018**	5 151
Total	**6 250**	-11 272

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 2020, is EUR 183 424 145.30 including retained earnings for the previous years EUR 159 489 231.47, reserve for invested non restricted equity EUR 4 050 000.00 and result for the financial year EUR 19 884 913.83.

The Board proposes that a dividend of EUR 41.80 per share on 502 765 shares be paid, totalling EUR 21 015 577.00. The parent company will retain distributable equity of EUR 162 408 568.30. Signature of the financial statements and the review of the Board of Directors

Helsinki, 23 March 2021

Jukka Moisio
Chairman of the Board

Mathias Bergman

Christian Köhler

Eduard Paulig

Petra Teräsaho

Christina Wergens

Rolf Ladau
Managing Director

Auditors’ report has been issued today.
Helsinki, 24 March 2021

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, 2020. 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 the 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 24.3.2021 Ernst & Young Oy
Authorized Public Accountant Firm

Bengt Nyholm
Authorized Public Accountant

For a life full of flavour.

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