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Financial Statements 2021

PAULIG

For a life full of flavour.

Contents

Board of Directors' report for 1 January–31 December 2021

In 2021, Paulig Group's revenue was EUR 966.3 million (919.5 in 2020), an increase of 5.1 per cent on the previous year. The Group's operating profit was EUR 95.3 million (88.3), which was 9.9 per cent (9.6) of net sales. Paulig Group employed 2,190 people on average during the year (2,160).

Changes in Group structure during the financial year

The following changes took place in the Group's structure in 2021:

- Paulig Coffee Sweden AB was merged with Santa Maria AB
- Risenta AB was merged with Santa Maria AB
- Euroleasing Ltd was demerged into two newly established companies: Euroleasing Ltd and Nissen Invest Ltd

Revenue

In 2021, Paulig Group's revenue was EUR 966.3 million (919.5), an increase of 5.1 per cent on the previous year. Retail channel sales continued to grow and there was a clear improvement in the out-of-home channel from the worst COVID-19 drop in the previous year. The growth drivers were coffee, Tex Mex and flavouring categories.

Of Paulig Group's total revenue of EUR 966.3 million, 54 per cent came from the Nordic countries and 46 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 30 per cent, East 6 percent and Other 1 per cent.

REVENUE (MEUR)

	2021	2020	CHANGE
Finland & Baltics	**301.8**	285.0	5.9%
Scandinavia & Central Europe	**303.5**	283.2	7.2%
Customer Brands	**286.8**	286.2	0.2%
East	**61.9**	54.9	12.8%
Other	**12.3**	10.2	19.7%
Total	**966.3**	919.5	5.1%

Result for the financial year

The Group's operating profit was EUR 95.3 million (88.3), and its ratio to net sales was 9.9 per cent (9.6).

The consolidated result for the financial year, EUR 85.3 million (66.7), included EUR 4.7 million profit (8.6) from real estate sales associated with the sale of land areas in Vuosaari. Depreciation and impairment totalled EUR 42.1 million (49.6). The associated company's (Fuchs Group) contribution to the consolidated result was EUR 4.0 million (8.7).

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

Investments

Investments during the financial year totalled EUR 46.7 million (36.7). The most significant investments were related to the building of the new factory for Tex Mex production in Belgium.

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

KEY INDICATORS OF PAULIG GROUP'S FINANCIAL STATUS AND RESULT

	2021	2020	2019
Revenue, MEUR	**966.3**	919.5	921.4
Other income, MEUR	**9.8**	9.8	16.1
Share of results in associated companies, MEUR	**4.0**	8.7	-1.7
Operating profit, MEUR	**95.3**	88.3	75.4
Operating profit, % of net sales	**9.9**	9.6	8.2
Operating profit before depreciation, amortisation and impairment, MEUR	**137.5**	137.8	137.2
Profit for the financial year, MEUR	**85.3**	66.7	51.6
Shareholders' equity, MEUR	**735.6**	691.1	649.2
Return on equity, %	**12.0**	10.0	8.1
Equity ratio, %	**62.4**	63.9	64.0
Cash and short-term deposits, MEUR	**140.6**	83.1	80.6
Interest-bearing liabilities, MEUR	**157.8**	122.0	118.3
Investments during the financial year, MEUR	**46.7**	36.7	31.3

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

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

Personnel

Paulig Group's average number of employees increased by 30 persons from the previous year. The majority of the Group's 2,190 employees on average were employed in Belgium (32 per cent), Sweden (21 per cent) and Finland (20 per cent).

PERSONNEL

	2021	2020	2019
Average number of employees	**2,190**	2,160	2,115
Employee benefit expenses, MEUR	**143.6**	137.1	132.4

Innovation and product development

Paulig´s Marketing and 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, a new innovation model was created for Paulig. Innovation is a key success factor in driving growth and the new One Paulig innovation model enables regaining innovation leadership. The aim is to initiate change in innovation culture at Paulig and become bolder, faster and more focused in developing new products and services.

Paulig introduced several new products to the market under the Group´s various brands in 2021.

Santa Maria launched a new Tex Mex concept: Next Mex. The range includes tasty spice pastes, a range of salsas, a delicious mayo and a tortilla with just the right size and texture. The Next Mex concept offers variety and brings a restaurant feeling at home with new and more mature flavours. Another important launch for Santa Maria was the carrot and beetroot tortillas, which consist of 30% vegetables and are a great option for a healthier taco dinner.

The Paulig City Coffee series was supported with a new Singapore City Coffee launch in Finland and Rainforest Alliance certified coffee range in Russia. The Presidentti coffee family was extended with a Ruby variant in Finland. Novelties were also presented in the Juhla Mokka coffee family. Paulig launched the original Juhla Mokka coffee and two new flavours, Juhla Mokka Silkkinen (Silky) and Juhla Mokka Samettinen (Velvety), in small packages. Juhla Mokka continued also its famous Mother's Day and Christmas campaigns. In the Baltic countries, a new master brand communication was launched.

The Paulig Frezza cold drinks product family was extended with a new flavour, Crazy Banana. In addition to Santa Maria, new carrot and beetroot tortillas were also launched under the Poco Loco brand. In the flavouring category, Santa Maria launched a saffron paste for the Swedish market, making it easier for consumers to bake super-tasty, fluffy saffron buns at home. A gingerbread spice mix with a taste of orange was also launched – just in time for the Christmas season! The Risenta brand continued renovating the assortment for better profitability and also launched two new items in the sesame cookie range (peanut and almond). The Gold&Green Deli Oats family was complemented by mushroom truffle-flavoured Deli Oats.

Value engineering and production process optimisation 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, Carrot Kitchen and Melt&Marble. Carrot Kitchen is a pedagogical and inspiring cooking app for kids. Melt&Marble has developed yeast as a production platform for tasty and sustainable fats for plant-based foods.

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.

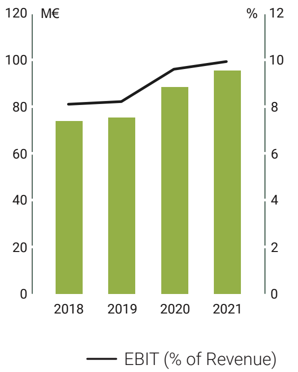
Paulig's sustainability work is guided by Paulig Sustainability Approach 2030, approved by Paulig Ltd's Board of Directors in February 2020. The approach is based on three prioritised United Nations Sustainable Development Goals and builds on the United Nations Guiding Principles on Business and Human 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.

In 2021, a new governance model for sustainability was approved, formalising the roles and responsibilities for steering actions and reporting practices, hence furthering the implementation of strategic sustainability initiatives a as well as ensuring accountability. To ensure that the sustainability programme is up-to- date and that the focus is on the right topics, the approach needs to be reviewed regularly. Paulig's 2021 developed Strategic Sustainability Development Process determines how to monitor and consider the expectations of different stakeholder Groups and the impacts of global trends and external factors on the sustainability programme. The strategic sustainability initiatives for 2022–2024 were updated, integrated into the business strategy and approved by the Board of Directors.

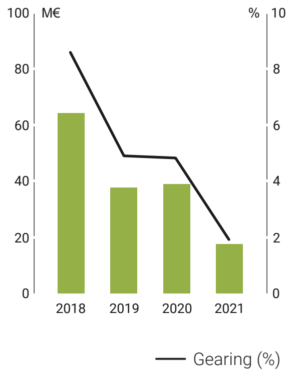
Paulig made good progress towards its sustainability ambitions in 2021 and the implementation level of the strategic sustainability initiatives was as planned.

Climate change is the most significant long term sustainability risk for Paulig and Paulig's climate targets are aligned with a 1.5°C pathway and approved by the Science Based Target initiative. Paulig's biggest impacts on climate are within the value chain. Climate related risks and impacts are mitigated through general risk management and the strategic sustainability initia-

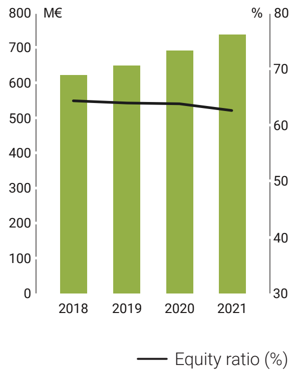
EBIT



Net debt



Shareholders' equity



tives. By the end of the year 2021, five out of ten Paulig factories were certified as carbon neutral and the collaboration with Lantmännen was initiated to implement climate-smart plant nutrition and precision farming to reduce the carbon emissions of Santa Maria tortilla's raw material, wheat. An investigation of coffee value chain emission reduction possibilities for the future was also conducted.

Paulig continuously develops its processes and ways of working to ensure respect for human rights both in its own operations and throughout the value chain. In 2021 Paulig continued to publicly call for EU-wide mandatory human rights and environmental due diligence legislation and to implement the roadmap for top spices external verifications.

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 seven members: Jukka Moisio (Chairman), Mathias Bergman, Christian Köhler, Eduard Paulig, Heikki Takala, Petra Teräsaho and Christina Wergens.

Heikki Takala was elected as a new Board member in April 2021.

Peter Rikberg continued as the observer of the Board.

The Group's CEO is Rolf Ladau.

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

Shares

The company's stock is divided into A shares (487,765 shares) and B shares (15,000 shares), a total of 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 85,308,871.95. The parent company's distributable shareholders' equity was EUR 359,634,293.50 according to the financial statements on 31 December 2021. The Board of Directors proposes that a dividend of EUR 54.00 per share be paid, amounting to EUR 27,149,310.00 in total and that in addition the shareholders' meeting authorises the Board of Directors to decide by the end of 2022 on the payment of an extra dividend of no more than EUR 17.40 per share, amounting to EUR 8,748,111.00. The parent company's distributable shareholders' equity would then be EUR 323,736,872.50.

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 is expected to increase in 2022 due to price increases related to the increases in raw material prices.

The events in Ukraine are increasing the risks and uncertainty related to the financial year 2022. The net result in 2022 is expected to be lower than in the previous year due to this and the company is monitoring the situation very closely.

The company continues monitoring also the COVID-19 pandemic closely and proactively takes measures concerning its possible implications to the business.

Events following the end of the financial year

In January 2022 Paulig completed the acquisition of Liven, S.A., a Spanish snacks company, to accelerate growth in the Tex Mex and snacking categories.

Paulig is also planning to exit the Gold&Green plant-based protein business. Paulig has sold its Gold&Green brand, intellectual property and the R&D function related to that and started cooperation negotiations with the employees of Gold&Green Foods Ltd.

In March 2022, Paulig started the process to withdraw from its operations in Russia.

Consolidated Statement of Comprehensive Income

EUR 1 000	NOTE	2021	2020
Revenue	3.1	**966 318**	919 532
Other operating income	3.2	**9 777**	9 762
Materials and services	3.3	**-532 500**	-489 964
Employee benefit expenses	3.4, 5.8	**-143 621**	-137 094
Depreciation, amortisation and impairment losses	4.1–4.4	**-42 142**	-49 555
Other operating expenses	3.5	**-166 541**	-173 167
Share of result in associated companies	2.4	**4 031**	8 750
Operating profit		**95 322**	88 264
Financial income	3.6	**20 711**	10 108
Financial expenses	3.6	**-9 124**	-11 630
Net financial expenses		**11 587**	-1 522
Profit (-loss) before taxes		**106 909**	86 743
Income taxes	3.7	**-21 600**	-20 060
Profit (-loss) for the financial year		**85 309**	66 683

EUR 1 000	NOTE	2021	2020
Other comprehensive income (OCI)			
Items that may be reclassified to profit or loss in subsequent periods			
Foreign currency translation difference		**-3 928**	3 330
Change in fair value of hedging instruments	6.4	**-18 266**	-581
Items that will not be subsequently reclassified to profit or loss			
Actuarial gains and losses from defined benefit plans	5.8	**1 006**	-1 550
Changes in fair value of equity investments through OCI		**2 000**	1 451
Tax effect	3.7	**-642**	110
Other comprehensive income (-loss), net of tax		**-19 830**	2 760
Total comprehensive income (-loss) for the year		**65 479**	69 442
Profit for the financial year attributable to			
Owners of the parent company		**85 309**	66 683
		85 309	66 683
Total comprehensive income for the year attributable to			
Owners of the parent company		**65 479**	69 442
		65 479	69 442

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

Consolidated Statement of Financial Position

EUR 1 000	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
ASSETS			
Non-current assets			
Goodwill	4.1, 4.2	**63 097**	64 107
Intangible assets	4.1	**9 231**	11 080
Tangible assets	4.3	**310 771**	308 095
Shares in associated companies	2.4	**72 841**	71 681
Other non-current receivables	5.2	**2 202**	1 980
Non-current financial assets	6.2	**57 914**	48 300
Deferred tax assets	3.7	**8 035**	7 984
Total non-current assets		**524 093**	513 229
Current assets			
Inventories	5.1	**142 691**	134 984
Trade and other receivables	5.2	**151 206**	134 520
Other current financial assets	6.2–6.4	**210 862**	208 414
Income tax receivable		**6 638**	7 343
Cash and short-term deposits	5.3, 6.2	**140 551**	83 149
Total current assets		**651 948**	568 411
Assets held for sale	5.4	**2 337**	724
Total assets		**1 178 378**	1 082 364

EUR 1 000	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
EQUITY AND LIABILITIES			
Equity	6.1		
Share capital		**8 204**	8 204
Other equity		**727 392**	682 930
Equity attributable to equity holder of the parent		**735 596**	691 133
Total equity		**735 596**	691 133
Non-current liabilities			
Interest-bearing liabilities	5.7	**147 366**	109 803
Other non-current financial liabilities		**505**	196
Provisions	5.6	**3 501**	3 559
Net employee defined benefit liabilities	5.8	**30 279**	30 152
Deferred tax liabilities	3.7	**17 241**	11 634
Total non-current liabilities		**198 892**	155 343
Current liabilities			
Interest-bearing liabilities	5.7	**10 444**	12 195
Trade and other payables	5.5, 6.2–6.4	**226 855**	208 701
Income tax payable		**6 590**	10 742
Total current liabilities		**243 890**	231 638
Liabilities directly associated with the assets held for sale	5.4	**0**	4 250
Total liabilities		**442 782**	391 231
Total equity and liabilities		**1 178 378**	1 082 364

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

Consolidated Statement of Cash Flows

EUR 1 000	NOTE	2021	2020
Cash flows from operating activities			
Net profit (-loss) before taxes		**106 909**	86 743
Adjustments 1)		**-1 323**	37 363
Change in net working capital:			
Change in trade and other receivables		**-17 297**	2 828
Change in inventory		**-7 707**	-5 012
Change in trade and other payables		**14 214**	7 250
Dividends received		**2 870**	9 199
Interest received		**10 745**	6 403
Interest paid		**-7 126**	-7 321
Other financial income and expenses, net		**4 921**	-1 462
Income taxes paid		**-20 050**	-18 711
Cash flows from operating activities (A)		**86 157**	117 279
Cash flows from investing activities			
Investments in tangible and intangible assets	4.1–4.4	**-46 700**	-36 674
Proceeds from disposal of tangible assets		**15 157**	16 721
Investments in other investments (subsidiary acquisitions)		**0**	-7 063
Dividends received		**1 217**	176
Net cash flow from investments		**-11 663**	-49 453
Cash flows from investing activities (B)		**-41 989**	-76 293
Cash flows from financing activities 2)			
Increase (-), decrease (+) in long-term receivables		**399**	-879
Dividends paid		**-21 016**	-20 397
Proceeds from borrowings	5.7, 6.2	**50 000**	0
Repayments of leasing liability	4.4	**-18 220**	-16 474
Cash flows from financing activities (C)		**11 163**	-37 750

EUR 1 000	NOTE	2021	2020
Change in cash flows (A+B+C)		**55 331**	3 235
Cash and short-term deposits at 1 January	5.3	**83 149**	80 554
Net foreign exchange difference		**2 071**	-640
Cash and short-term deposits at 31 December	5.3	**140 551**	83 149
Change		**55 331**	3 235
1) Adjustments			
Depreciation, amortisations and impairments	4.1–4.4	**42 142**	49 555
Share of associated companies results	2.4	**-4 031**	-8 750
Eliminated foreign exchange gains and losses		**313**	-867
Financial income and expenses	3.6	**-11 587**	1 522
Other adjustments		**-28 160**	-4 098
Total		**-1 323**	37 363

2) Changes in liabilities arising from financing activities

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

Consolidated Statement of Changes in Equity

	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY									
EUR 1 000	SHARE CAPITAL	OTHER RESTRICTED EQUITY FUNDS	CASH FLOW HEDGE FUND	OTHER OCI ITEMS	TRANSLATION FUND	UNRESTRICTED EQUITY FUNDS	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
Balance at 1 January 2020	**8 204**	**4 168**	**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**	**1 764**	**-1 742**	**-7 801**	**4 324**	**682 217**	**691 133**	**0**	**691 133**
Profit for the period							85 309	85 309		85 309
Other comprehensive income										
Cash flow hedge, net of tax			-18 266					-18 266		-18 266
Change in fair value of equity instruments at FVOCI				1 600				1 600		1 600
Defined benefit plan actuarial gains and losses, net of tax				765				765		765
Translation differences					-3 928			-3 928		-3 928
Total comprehensive income								**-19 829**		**-19 829**
Transactions with owners of the parent company										
Dividend							-21 016	-21 016		-21 016
Balance at 31 December 2021	**8 204**	**4 168**	**-16 502**	**622**	**-11 729**	**4 324**	**746 511**	**735 596**	**0**	**735 596**

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 17 March 2022. 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 2021 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 2021 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 2021	GROUP OWNERSHIP %
In Finland	
Euroleasing Ltd	100
Nissen Invest 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
Poco Loco France SARL, France	100
Saffron Holding A/S, Denmark	100

31 DECEMBER 2021	GROUP OWNERSHIP %
Santa Maria A/S, Denmark	100
Santa Maria AB, Sweden	100
Santa Maria B.V., Netherlands	100
Santa Maria Norge AS, Norway	100
Santa Maria NV, Belgium	100
Santa Maria UK Ltd, United Kingdom	100
Sauerklee A/S, Denmark	100
Snack Food Poco Loco UK Ltd, United Kingdom	100
Taljegården Fastighets AB, Sweden	100

Paulig Coffee Sweden AB and Risenta AB were merged with Santa Maria AB in 2021. Euroleasing Ltd was demerged into two newly established companies: Euroleasing Ltd and Nissen Invest Ltd. All the companies involved are 100% owned subsidiaries of Paulig Group.

2.3 BUSINESS COMBINATIONS AND DISPOSALS

Business disposals

There have been no business disposals in Paulig Group during the financial year 2021.

Business combinations

There have been no business combinations in Paulig Group during the financial year 2021.

2.4 SHARES IN ASSOCIATED COMPANIES

§ Accounting principles

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

SHARES IN ASSOCIATED COMPANIES CONSIST OF FOLLOWING ITEMS

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
FUCHS-Group*	**72 841**	71 681
Total	**72 841**	71 681

* 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	2021	2020
Current assets	**299 420**	288 201
Non-current assets	**188 031**	190 768
Equity	**240 783**	231 736
Liabilities	**246 668**	247 233
Revenue	**569 459**	557 243
Profit for the financial year*	**16 116**	34 986
Dividends received from the associate	**2 884**	9 199
Group's share in equity – 25.01% (2020: 25.01%)	**60 220**	57 957
Domicile	**Germany**	Germany

* Adjusted with EUR 2.0 million (2020: 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 in entered as income. Lease income from coffee machine leases is recognised according to IFRS 16 Leases standard and included in the revenue in the consolidated statement of income (see note 4.4 Leases).

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

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

EUR 1 000	2021	2020
Revenue by market area		
Nordic countries	**518 866**	491 332
Continental Europe	**268 759**	265 280
United Kingdom and Ireland	**48 423**	49 923
Baltic countries	**58 228**	57 108
Russia	**56 998**	49 337
Other countries	**15 044**	6 553
Total *	**966 318**	919 532
Revenue by Business area		
Scandinavia & Central Europe	**303 516**	283 240
Finland & Baltics	**301 809**	285 026
East	**61 875**	54 858
Customer Brands	**286 845**	286 154
Other	**12 272**	10 255
Total*	**966 318**	919 532
Timing of revenue recognition		
At a point in time	**961 981**	914 788
Over time	**4 337**	4 744
Total*	**966 318**	919 532

* Revenue includes EUR 0.9 million (2020: EUR -2.1 million) realised exchange rate differences and EUR -0.3 million (2020: 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. Paulig Customer Brands Business Area is known for the Poco Loco brand and for the excellent know-how in private label manufacturing. Brand Gold&Green stands for pulled oats which is completely plant-based food product. Gold&Green is not part of any business area and the revenue is presented as part of the line Other in the table Revenue by Business area.

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

3.2 OTHER OPERATING INCOME

EUR 1 000	2021	2020
Sale of tangible assets*	**8 576**	9 182
Government grants**	**422**	0
Other income	**779**	580
Total	**9 777**	9 762

* More information available in note 5.4 Assets held for sale.
** Compensation on research and innovation project costs received from Business Finland.

3.3 MATERIALS AND SERVICES

EUR 1 000	2021	2020
Materials and services		
Purchases during reporting period	**517 824**	477 353
Change in inventories	**-3 289**	-5 258
External services	**17 965**	17 869
Total *	**532 500**	489 964

* Materials and services include EUR -1.3 million (2020: EUR 4.4 million) realised exchange rate differencies and EUR 1.0 million (2020: EUR -1.2 million) unrealised exchange rate differencies.

3.4 EMPLOYEE BENEFIT EXPENSES AND NUMBER OF EMPLOYEES

EUR 1 000	2021	2020
Salaries and remuneration for Managing Directors and the members of the Board of Directors	**1 941**	1 104
Wages and salaries	**105 169**	101 912
Pension expenses – defined contribution plans	**9 927**	8 748
Pension expenses – defined benefit plans	**2 458**	2 232
Other personnel expenses	**24 126**	23 098
Total	**143 621**	137 094
Average number of employees		
Nordic countries	**957**	956
Central Europe	**725**	692
United Kingdom and Ireland	**116**	117
Baltic countries	**188**	192
Russia	**204**	202
Total	**2 190**	2 160

3.5 OTHER OPERATING EXPENSES

EUR 1 000	2021	2020
Energy	**9 415**	8 355
Rents and leases	**6 400**	6 450
Sales freights and logistics	**31 428**	37 208
External services	**29 868**	25 156
Marketing activities	**49 527**	48 259
Other expenses	**39 903**	47 739
Total	**166 541**	173 167
Auditor's fees		
Audit	**351**	412
Tax services	**27**	39
Other services	**642**	423
Total	**1 020**	874

3.6 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME

EUR 1 000	2021	2020
Dividend income	**1 217**	176
Interest income derivatives	**1 891**	2 057
Interest income other	**8 855**	4 346
Exchange rate gains and losses derivatives	**-3 612**	0
Exchange rate gains and losses other	**3 924**	0
Financial income on derivatives	**8 416**	3 485
Other financial income	**20**	44
Total	**20 711**	10 108

FINANCIAL EXPENSES

EUR 1 000	2021	2020
Interest expenses derivatives	**1 691**	2 232
Interest expenses other	**1 337**	894
Exchange rate gains and losses derivatives	**0**	-5 676
Exchange rate gains and losses other	**0**	6 543
Interest on lease liability	**4 098**	4 195
Financial expenses on derivatives	**1 118**	2 968
Other financial expenses	**880**	474
Total	**9 124**	11 630
Financial income and expenses, net	**11 587**	-1 522

Group's hedge accounting effectiveness testing was found to be effective thus no inefficiency is included in the financial items for 2021 nor 2020.

Exchange rate gains and losses in financial income consist of EUR 15.3 million (2020: EUR 25.1 million) realised exchange rate gains, EUR 95.9 million euro (2020: EUR 163.7 million) unrealised exchange rate gains, EUR -17.2 million (2020: EUR -21.6 million) realised exchange rate losses and EUR -93.7 million (2020: EUR -168.0 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	2021	2020
Current tax for the reporting year	**-16 332**	-21 977
Current tax adjustments for prior years	**-272**	-497
Changes in deferred taxes	**-4 996**	2 414
Total	**-21 600**	-20 060

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

EUR 1 000	2021	2020
Profit before tax	**106 909**	86 743
Tax calculated using Finnish tax rate 20%	**-21 382**	-17 349
Effect of tax rate in foreign subsidiaries	**-493**	1 411
Non-deductible expenses	**-726**	-3 052
Tax-free income	**246**	914
Current tax adjustments for prior years	**6 357**	0
Effect of current year losses	**-401**	-4 243
Other differences	**-774**	-602
Previous years taxes	**-272**	-497
Changes in deferred taxes	**-4 996**	2 414
Effect of consolidation entries	**841**	944
Income taxes in the statement of comprehensive income	**-21 600**	-20 060
Effective tax rate %	**20.2%**	23.1%
Other comprehensive income		
Tax effects in other comprehensive income	**-642**	110
Total	**-22 242**	-19 950

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.

2021 EUR 1 000	1 JANUARY 2021	RECOGNISED THROUGH PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	EXCHANGE RATE DIFFERENCES	31 DECEMBER 2021
Deferred tax assets					
Tangible and intangible assets	2 028	314			**2 342**
Employee benefits	4 174	431	-242	-18	**4 344**
Inventory	102	-3		-2	**97**
Other temporary differences	1 681	-493		65	**1 253**
Total deferred tax assets	**7 984**	**248**	**-242**	**45**	**8 036**
Deferred tax liabilities					
Tangible and intangible assets	6 760	-111			**6 649**
Financial assets	1 580	392	400		**2 372**
Depreciation difference and optional provisions	2 744	25		-41	**2 728**
Other temporary differences	549	4 938		5	**5 491**
Total deferred tax liabilities	**11 634**	**5 244**	**400**	**-37**	**17 241**

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**

At 31 December 2021 there is a total of EUR 6.0 million (2020: EUR 42.9 million) tax losses carried forward in the Group. The expiry dates for these vary between 2025 and 2026 for EUR 1.5 million. The remaining EUR 4.5 million derives from UK business losses for which there is no expiration date. Deferred tax assets have not been recognised in respect of these losses as there is uncertainty regarding the probability of whether future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. If the Group was able to recognise all unrecognised deferred tax assets, the profit would increase by EUR 1.2 million (2020: EUR 8.6 million).

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 2021	69 716	27 539	28 157	**125 412**
Exchange rate differences	-1 010	-333	-288	**-1 631**
Additions		2 849	23	**2 872**
Disposals		-254	-1 860	**-2 114**
Transfers		504	38	**542**
Acquisition cost 31 December 2021	68 706	30 305	26 070	**125 082**
Accumulated amortisation and impairment losses 1 January 2021	-5 609	-26 570	-18 045	**-50 225**
Exchange rate differences		336	228	**564**
Depreciation on disposals and transfers		323	1 853	**2 176**
Depreciation for the reporting period		-546	-4 722	**-5 269**
Accumulated amortisation and impairment losses 31 December 2021	-5 609	-26 458	-20 687	**-52 753**
Carrying amount 1 January 2021	**64 107**	**969**	**10 112**	**75 188**
Carrying amount 31 December 2021	**63 097**	**3 848**	**5 383**	**72 329**
Acquisition cost 1 January 2020	67 752	26 351	26 003	**120 106**
Correction to opening balance				
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		**-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**

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

	31 DECEMBER 2021		31 DECEMBER 2020	
EUR 1 000 CASH GENERATING UNITS	GOODWILL	DISCOUNT RATE % (WACC)	GOODWILL	DISCOUNT RATE % (WACC)
BA Finland & Baltics	8 184	7.5	8 184	7.0
BA Scandinavia & Central Europe	51 088	8.4	52 098	6.2
BA Customer Brands	3 825	7.9	3 825	6.7
Total	**63 097**		**64 107**	

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 2.4% 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 51% of the planned level or discount rate was increased to 34.6%.

For BA Scandinavia & Central Europe CAGR-% used in cash flow projection is 4.7% reflecting expected growth in sales of Tex Mex products. Based on the sensitivity analysis, the headroom turned negative when EBITDA was decreased by 32% of the planned level or discount rate was increased to 24.8%.

For BA Customer Brands CAGR-% used in cash flow projection is 5.5% 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 22% of the planned level or discount rate was increased to 15.9%.

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 2021	16 872	234 338	343 895	21 804	**616 909**
Exchange rate differences	15	-589	219	-124	**-479**
Additions		3 232	6 910	39 120	**49 262**
Disposals		-8 495	-17 362		**-25 857**
Change in transfer of assets held for sale	-2 337				**-2 337**
Transfers		2 937	20 208	-23 687	**-542**
Acquisition costs 31 December 2021	14 550	231 423	353 870	37 114	**636 956**
Accumulated depreciation and impairment losses 1 January 2021		-67 853	-240 534	-426	**-308 813**
Exchange rate differences		194	-292		**-98**
Accumulated depreciation on disposals		2 397	17 272		**19 669**
Depreciation for the reporting period		-13 787	-23 197		**-36 985**
Reversals of impairment losses		45	66		**111**
Transfers			-70		**-70**
Accumulated depreciation and impairment losses 31 December 2021		-79 004	-246 755	-426	**-326 185**
Carrying amount 1 January 2021	**16 872**	**166 485**	**103 361**	**21 378**	**308 095**
Carrying amount 31 December 2021	**14 550**	**152 419**	**107 115**	**36 687**	**310 771**
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**

RIGHT-OF-USE ASSET INCLUDED IN TANGIBLE ASSETS

EUR 1 000	BUILDINGS AND CONSTRUCTIONS*	MACHINERY AND EQUIPMENT	TOTAL
Acquisition cost 1 January 2021	145 119	13 406	**158 525**
Exchange rate differences	-813	-692	**-1 505**
Additions	2 763	2 671	**5 434**
Disposals	-7 341	-548	**-7 888**
Acquisition costs 31 December 2021	139 728	14 838	**154 566**
Accumulated depreciation and impairment losses 1 January 2021	-32 196	-7 658	**-39 854**
Exchange rate differences	228	-22	**207**
Accumulated depreciation on disposals	1 775	377	**2 152**
Depreciation for the reporting period	-10 099	-2 748	**-12 847**
Reversals of impairment losses	45		**45**
Accumulated depreciation and impairment losses 31 December 2021	-40 246	-10 050	**-50 296**
Carrying amount 1 January 2021	**112 924**	**5 748**	**118 672**
Carrying amount 31 December 2021	**99 483**	**4 787**	**104 270**
Acquisition cost 1 January 2020	129 390	12 628	**142 018**
Correction to opening balance	0	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**

* 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 1.78% during the financial year 2021 (2020: 2.1%). 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 2021	31 DECEMBER 2020
Buildings and constructions	**99 483**	112 924
Machinery and equipment	**4 787**	5 748
Total	**104 270**	118 672

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 2020	**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**
Correction to opening balance	-222	-487
New contracts	2 481	17 487
Modifications to contracts	-1 085	-13 450
Cash flows	-18 220	0
Reclassification between short-term and long-term liabilities	15 296	-15 987
As at 31 December 2021	**10 444**	**97 366**

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 December 2021 amounted EUR 53.8 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 58.5 million.

AMOUNTS RECOGNISED IN PROFIT OR LOSS

EUR 1 000	2021	2020
Depreciation expense of right-of-use assets	**12 847**	15 207
Interest expenses on lease liabilities	**4 098**	4 195
Expenses – short-term leases	**1 330**	1 155
Expenses – leases of low-value assets	**503**	696
Total amount recognised in profit or loss	**18 778**	21 253

There were no lease expenses relating to variable lease payments not included in lease liabilities during the years 2021 and 2020.

GROUP AS LESSOR

FINANCE LEASE RECEIVABLES

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Current	**0**	399
Total	**0**	399

MATURITY OF RENTALS RECEIVABLE AS OF 31 DECEMBER 2021

EUR 1 000	< 1 YEAR	1–5 YEARS	> 5 YEARS	TOTAL
Operating lease receivables	779	0	0	779
Total	**779**	**0**	**0**	**779**

AMOUNTS RECOGNISED IN PROFIT OR LOSS

EUR 1 000	2021	2020
Operating lease income	**1 900**	1 526
Interest income on finance leases	**0**	9
Total amount recognised in profit or loss	**1 900**	1 535

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

5. OPERATIONAL ASSETS AND LIABILITIES

5.1 INVENTORY

§ Accounting principles

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

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

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

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

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Materials and consumables	**64 505**	67 800
Work in progress	**1 162**	1 230
Finished goods	**77 658**	67 884
Provision for obsolete inventory	**-634**	-1 930
Total	**142 691**	134 984

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 2021	31 DECEMBER 2020
Trade receivables	**127 693**	122 009
Receivables from associated companies	**282**	330
Allowance for expected credit losses	**-304**	-283
Total trade receivables	**127 671**	122 056
Other receivables	**23 535**	12 464
Total trade and other receivables	**151 206**	134 520

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 2021 and 2020. 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 38% of the Group's trade receivables at the year end 2021 (2020: 41%) the risk of material credit losses is deemed to be very low. Expected credit losses for year end 2021 amounted to EUR 0.3 million (2020: EUR 0.3 million). Due to the immaterial amount of expected credit losses no separate provision matrix of allocating the amount to days past due is presented.

SPECIFICATION FOR OTHER RECEIVABLES IN CURRENT ASSETS

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
VAT receivable	**5 480**	4 359
Finance lease receivable	**0**	399
Derivative instruments	**7 208**	1 895
Other receivables	**10 847**	5 811
Total other receivables	**23 535**	12 464

OTHER RECEIVABLES IN NON-CURRENT ASSETS

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Employee benefits	**701**	789
Other receivables	**1 502**	1 191
Total other receivables	**2 203**	1 980

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 2021	31 DECEMBER 2020
Cash and bank	**140 551**	73 025
Short-term deposits	**0**	10 124
Total	**140 551**	83 149

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 2021	31 DECEMBER 2020
Land areas	**2 337**	724
Total	**2 337**	724

LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Advance payments related to assets held for sale	**0**	4 250
Total	**0**	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 2021 have been classified as assets held for sale at the end of year 2020. Paulig group gained EUR 4.7 million profit for the sales of land areas during year 2021. The land areas for which the sell is highly probably during the year 2022 are classified as assets held for sale at the end of year 2021. The expected sales price approximate EUR 5.4 million with a expected profit of EUR 3.2 million. The land areas are measured at their carrying amounts.

5.5 TRADE AND OTHER PAYABLES

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Trade payables	**152 641**	130 209
Other payables	**74 214**	78 492
Total	**226 855**	208 701

SPECIFICATION FOR OTHER PAYABLES IN CURRENT LIABILITIES

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Accrued personnel expenses	**20 587**	19 522
Annual discounts to customers	**22 184**	22 440
VAT payables	**7 739**	5 596
Derivative instruments	**673**	6 460
Other	**23 031**	24 474
Total	**74 214**	78 492

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 2021	**3 445**	**114**	**3 559**
Amounts used during the period		-100	**-100**
Exchange rate difference	42		**42**
31 December 2021	**3 487**	**14**	**3 501**

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 2021	31 DECEMBER 2020
Non-current liabilities		
Term loan	**50 000**	0
Lease liabilities	**97 366**	109 803
Total	**147 366**	109 803
Current liabilities		
Lease liabilities	**10 444**	12 195
Total	**10 444**	12 195

Paulig Group interest-bearing liabilities consist of lease liabilities and a term loan. Accounting principle for lease liabilities is described in note 4.4 Leases and for a term loan in note 6.2 Classification of financial assets and liabilities.

Term loan includes covenants. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the covenants and they are continuously monitored.

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 2021	31 DECEMBER 2020
Voluntary Insurance plan in Finland	**701**	789
Post-employment benefit plan Belgium	**376**	658
Jubilee plans	**2 145**	2 009
ITP2 pension plan in Sweden	**27 057**	26 696
Total defined benefit liability (+) /asset (-)	**30 279**	30 152

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

ITP2 pension plan in Sweden

The unfunded book-reserved obligations in Sweden are mainly lifelong retirement pensions within the ITP 2-plan. The benefits in the lifelong pensions are established by different percentages in different salary intervals. If the expected years of service, within the plan and irrespective of employer, is less than 30 years, benefits will be reduced proportionally.

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	2021	2020
Current service cost	**2 071**	1 766
Interest cost (+) income (-) on benefit obligation	**387**	466
Total	**2 458**	2 232

AMOUNTS RECOGNISED THROUGH OTHER COMPREHENSIVE INCOME

EUR 1 000	2021	2020
Experience adjustments	**-29**	621
Actuarial gains (-) / losses(+) from changes in financial assumptions	**-1 065**	1 195
Other gains (-) / losses (+)	**88**	-266
Remeasurements in other comprehensive income	**-1 006**	1 550

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

EUR 1 000	2021	2020
Defined benefit obligation at 1 January	**32 984**	28 521
Current service cost	**2 135**	1 817
Interest cost	**387**	470
Expense recognized in income statement	**2 522**	2 287
Changes in actuarial assumptions	**-995**	1 183
Experience adjustment	**-29**	621
Remeasurement recognised through OCI	**-1 024**	1 804
Benefits paid	**-478**	-585
Exchange difference	**-563**	957
Defined benefit obligation at 31 December	**33 441**	32 984

CHANGES IN FAIR VALUE OF PLAN ASSETS

EUR 1 000	2021	2020
Fair value of plan assets at 1 January	**2 833**	2 730
Current service cost	**0**	51
Interest income	**0**	4
Items recognised through profit and loss	**0**	55
Actuarial gains/losses (-)	**70**	-12
Items recognised through OCI	**70**	-12
Contributions paid	**463**	396
Benefits paid	**-203**	-336
Fair value of plan assets at 31 December	**3 163**	2 833

VOLUNTARY INSURANCE PLAN ASSETS ARE COMPRISED AS FOLLOWS

%	31 DECEMBER 2021	31 DECEMBER 2020
Listed shares	**50**	50
Debt instruments	**50**	50
	100	100

DEFINED BENEFIT PLANS: PRINCIPAL ACTUARIAL ASSUMPTIONS

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Discount rate		
Voluntary insurance plan in Finland	**1.00%**	-0.10%
ITP2 pension plan in Sweden	**1.90%**	1.30%
Post-employment benefit plan Belgium	**0.90%**	0.30%
Rate of salary increase		
Voluntary insurance plan in Finland	**2.50%**	1.90%
ITP2 pension plan in Sweden	**3.00%**	3.00%
Post-employment benefit plan Belgium	**N/A**	1.80%
Rate of inflation		
Voluntary insurance plan in Finland	**2.10%**	0.70%
ITP2 pension plan	**2.10%**	1.50%
Post-employment benefit plan Belgium	**N/A**	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 15 years. The weighted average duration is calculated with discount rate 1.0%.

EUR 1 000	FUTURE BENEFIT PAYMENTS (UNDISCOUNTED DEFINED BENEFIT OBLIGATION)
Maturity under 1 year	0
Maturity 1–5 years	89
Maturity 5–10 years	389
Maturity 10–15 years	344
Maturity 15–20 years	153
Maturity 20–25 years	95
Maturity 25–30 years	84
Maturity over 30 years	175
Total	**1 330**

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 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) 2021	2020
Discount rate %	+0.50%	**-79**	-96
	-0.50%	**87**	110
Salary increase	+0.50%	**35**	51
	-0.50%	**-35**	-49

Change in mortality basis so that life expectancy will increase by one year increases net liability 16 819€ (2.4%). Last period the change was 22 506€ (2.8%). 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) 2021	2020
Discount rate %	+0.50%	**-3 187**	-3 230
	-0.50%	**3 696**	3 761
Salary increase	+0.50%	**1 714**	2 055
	-0.50%	**-1 502**	-1 775
Inflation	+0.50%	**2 696**	2 507
	-0.50%	**-2 402**	-2 240
Life expectancy	+ 1 year	**1 215**	1 196
	- 1 year	**-1 208**	-1 189

The average duration of the defined benefit plan obligation at the end of the reporting period is 24 years (2020: 24 years).

POST-EMPLOYMENT BENEFIT PLAN BELGIUM

ACTUARIAL ASSUMPTIONS	CHANGE IN ASSUMPTION	CHANGE IN DEFINED BENEFIT OBLIGATION EUR (1 000) 2021	2020
Discount rate %	+0.50%	**-183**	-220
	-0.50%	**240**	251

RISKS ASSOCIATED WITH DEFINED BENEFIT PLANS

Paulig is exposed to a number of actuarial risks through its defined benefit plans, e.g. changes in interest rates or changes in the expected salary increases or life expectancy.

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 2020	487 765	15 000	**502 765**	**8 204**
31 December 2020	487 765	15 000	**502 765**	**8 204**
1 January 2021	487 765	15 000	**502 765**	**8 204**
31 December 2021	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 2021 totalled EUR 8 203 618.4, divided into 487 765 A Class shares and 15 000 B class shares. The nominal value of one share is not determined.

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

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

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

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

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

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

Other funds

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

Revaluation fund includes revaluation made to land areas.

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

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

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

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

Dividends

After the closing date, the Board of Directors has proposed dividend distribution of EUR 54.00 per share and that the Shareholders' Meeting authorizes the Board to decide on the payment of an extra dividend no more than EUR 17.40 per share.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

EUR 1 000	2021	2020
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
Cash flow hedge fund on 1 January	**1 764**	2 345
Change for the financial year	**-18 266**	-581
Cash flow hedge fund on 31 December	**-16 502**	1 764
Foreign currency translation fund on 1 January	**-7 801**	-11 131
Change for the financial year	**-3 928**	3 330
Foreign currency translation fund on 31 December	**-11 729**	-7 801
Other OCI items on 1 January	**-1 742**	-1 754
Changes for the financial year	**2 364**	12
Other OCI items on 31 December	**622**	-1 742

EUR 1 000	2021	2020
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	**682 218**	650 435
Dividend	**-21 016**	-20 397
Other change for the financial year	**0**	-14 503
Retained earnings on 31 December	**661 202**	615 535
Profit for the period	**85 309**	66 683
Total shareholders' equity on 31 December	**735 596**	691 133

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 currents 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 2021 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		48 181		**48 181**	**48 181**	1
Equity securities	7 445	1 111		**8 556**	**8 556**	1, 3
Convertible loan			545	**545**	**545**	3
Trade receivables			633	**633**	**633**	2
Current financial assets						
Trade receivables			127 671	**127 671**	**127 671**	2
Equity securities		62 328		**62 328**	**62 328**	1
Bonds		1 335		**1 335**	**1 335**	1
Bond funds		144 292		**144 292**	**144 292**	1
Derivative financial instruments	788	2 119		**2 907**	**2 907**	2
Cash and bank			140 551	**140 551**	**140 551**	1
Total financial assets	**8 233**	**259 366**	**269 400**	**536 999**	**536 999**	
Non-current financial liabilities						
Lease liabilities			97 366	**97 366**	**97 366**	2
Term loan			50 000	**50 000**	**50 000**	2
Current financial liabilities						
Lease liabilities			10 444	**10 444**	**10 444**	2
Derivative financial instruments		673		**673**	**673**	2
Trade payables			152 641	**152 641**	**152 641**	2
Total financial liabilities		**673**	**310 451**	**311 124**	**311 124**	

31 DECEMBER 2021 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**	

TOTAL FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Financial assets		
Level 1	**404 132**	320 522
Level 2	**131 211**	140 324
Level 3	**1 656**	1 073
Total	**536 999**	461 919
Financial liabilities		
Level 1	**0**	0
Level 2	**311 124**	258 644
Level 3	**0**	196
Total	**311 124**	258 840

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 2021 nor 2020.

Investments in equity instruments

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

RECONCILIATION OF FAIR VALUE MEASUREMENT OF LISTED EQUITY INVESTMENTS CLASSIFIED AS EQUITY INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH OCI

EUR 1 000	KESKO OYJ
Fair value as at 1 January 2020	**3 994**
Remeasurement recognised in OCI	1 452
Fair value as at 31 December 2020	**5 446**
Remeasurement recognised in OCI	1 999
Fair value as at 31 December 2021	**7 445**

Paulig Group received EUR 0.19 million dividend from Kesko Oyj during year 2021 (2020: EUR 0.16 million).

6.3 FINANCIAL RISK MANAGEMENT

The principles and organisation 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.

Group interest-bearing liabilities consist of lease liabilities and a term loan at the year end 2021. The Group is exposed to interest rate risk through the 50 million floating rate loan. One percentage point (100bp) parallel upward shift in interest rates could cause 0.3 million EUR increase in the Group interest expenses at 2022 because the change would not affect to all months' interest expenses. At the end of financial year 2020 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 193.8 million at the end of year 2021 (2020: EUR 231.9 million).

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

31 DECEMBER 2021 EUR 1 000	USD	RUB	SEK	NOK
Next 12 months forecast foreign currency cash flow	272 563	-46 265	-5 422	-30 870
Cash flow, hedges at 31 December 2021	-58 979	14 038	-580	16 208
Total exposure	**213 584**	**-32 227**	**-6 003**	**-14 662**

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**

A 10% adverse change in the foreign currency exchange rates above would result loss of EUR 39.5 million (2020: EUR 23.1 million) in net result and equity, based on forecasted cash flow. Net result of open foreign exchange contracts would result gain of EUR 10.0 million (2020: EUR 10.3 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 2021 EUR 1 000	2022	2023	2024	2025	2026	LATER
Leasing liabilities*	10 444	9 023	7 741	6 216	5 294	69 092
Term loan			50 000			
Derivative liabilities	673					
Trade payables	152 641					
Total	**163 758**	**9 023**	**57 741**	**6 216**	**5 294**	**69 092**

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**

* 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 2021					
Derivatives hedge accounted					
Commodity derivatives	-18 266	-297	Materials and services		
Derivatives outside hedge accounting					
Commodity derivatives				283	Financial income
Currency derivatives				6 040	Financial income
Currency derivatives				-1 118	Financial expenses
HEDGING GAINS AND LOSSES 2020					
Derivatives hedge accounted					
Commodity derivatives	-581	10 593	Materials and services		
Derivatives outside hedge accounting					
Commodity derivatives				-87	Financial expenses
Currency derivatives				1 419	Financial income
Currency derivatives				-2 881	Financial expenses

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

FAIR VALUES OF DERIVATIVE INSTRUMENTS

	31 DECEMBER 2021			31 DECEMBER 2020		
EU R 1 000	POS.	NEG.	NET	POS.	NEG.	NET
Derivatives in hedge accounting						
Commodity derivatives, cash flow hedges	788	0	7882	500	2 816	-316
Derivatives not in hedge accounting						
Foreign exchange derivatives, not in hedge accounting	2 119	673	1 446	1 180	3 621	-2 441
Commodity derivatives, not in hedge accounting	0	0	0	105	0	105
Total	**3 580**	**2 907**	**6 019**	**3 785**	**6 437**	**-2 652**

Positive (negative) fair value of hedging instruments on 31 Dec 2021 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 2021 NOMINAL	31 DECEMBER 2020 NOMINAL
Nominal values of derivative financial instruments		
Commodity derivatives and foreign exchange derivatives	**199 292**	311 169

The maturity for all open derivatives is under 12 months as of 31 December 2021.

6.5 CONTINGENT LIABILITIES AND OTHER COMMITMENTS

EUR 1 000	31 DECEMBER 2021	31 DECEMBER 2020
Guarantees		
Other guarantees for own commitments	**52 183**	6 249
Other commitments		
Repurchase commitments of coffee machines	**260**	319
Commitments for purchase of tangible assets	**25 345**	2 274
Leases not yet commenced to which Paulig is committed	**5**	6
Total contingent liabilities and other commitments	**77 793**	8 848

Sometimes the group may receive claims that it considers to be unfounded. These claims are not disclosed before they have been carefully evaluated and it has been established that they have some substance in them.

7. OTHER NOTES

7.1 RELATED PARTY TRANSACTIONS

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

PAID EMPLOYEE BENEFITS OF MANAGEMENT

EUR 1 000	2021	2020
Salaries and other short-term benefits	**3 882**	3 393
Post-employment benefits	**1 410**	1 051
Other long-term benefits	**1 141**	122
Total	**6 433**	4 566

During the year 2021 Paulig Group paid EUR 0.36 million (2020: EUR 0.35 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 2021, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2020: 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	**2021**				**58 499**
	2020				59 300
Fuchs Group Companies	**2021**	**2 804**	**99**	**282**	**0**
	2020	2 807	98	330	14

7.2 EVENTS AFTER THE REPORTING PERIOD

In January 2022 Paulig completed the acquisition of Liven S.A., a Spanish snacks company, to accelerate growth in Tex Mex and snacking categories.

Paulig is also planning to exit Gold&Green plant-based protein business. Paulig has sold its Gold&Green brand, intellectual property and the R&D function related to that and started cooperation negotiations with the employees of Gold&Green Foods Ltd.

In March 2022 Paulig has started the process to withdraw from its operations in Russia.

Parent company's income statement

EUR 1 000	NOTE	1 JANUARY 2021– 31 DECEMBER 2021	1 JANUARY 2020– 31 DECEMBER 2020
Net sales	1	**16 661**	17 143
Other operating income	2	**8 353**	11 143
Personnel expenses	3	**-9 285**	-8 192
Depreciation and value adjustments	4	**-563**	-627
Other operating expenses	5	**-16 587**	-22 877
		-26 435	-31 696
Operating profit		**-1 420**	-3 410
Financial income and expenses	6		
Dividend income on long-term financial assets		**194 195**	162
Interest income and other financial income		**3**	1
Interest expenses and other financial expenses		**-1 550**	-1 533
		192 648	-1 371
Profit before appropriations and taxes		**191 227**	-4 781
Appropriations	7		
Group contribution		**7 000**	30 000
Income taxes	8	**-1 002**	-5 334
Net profit for the financial year		**197 226**	19 885

Parent company's balance sheet

EUR 1 000	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
Assets			
Fixed assets	9		
Intangible assets			
Intangible rights		**3**	7
Other long-term expenses		**421**	888
Advanced payments		**2 772**	398
		3 195	1 293
Tangible assets			
Land and water		**2 337**	3 060
Buildings and constructions		**1 563**	1 650
Machinery and equipment		**117**	95
		4 017	4 804
Long-term financial assets	10		
Shares in associated companies		**506 705**	312 705
Other shares		**1 768**	1 654
Other receivables		**1 522**	1 522
		509 996	315 881
Total fixed assets		**517 207**	321 979
Current assets			
Long-term receivables			
Loan receivables		**545**	463
Short-term receivables	11		
Accounts receivable		**3**	1
Receivables from group companies		**11 128**	36 200
Other receivables		**0**	45
Accruals and deferred income		**1 146**	538
		12 277	36 785
Total current assets		**12 822**	37 248
Total		**530 029**	359 227

EUR 1 000	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
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		**158 359**	159 489
Net profit for the financial year		**197 226**	19 885
Total shareholders' equity		**370 972**	194 762
Provisions	13	**0**	100
Liabilities	14		
Long-term liabilities			
Interest bearing liabilities		**147 856**	147 856
		147 856	147 856
Current liabilities			
Received advanced payments		**0**	4 250
Accounts payable		**2 184**	815
Liabilities to group companies		**0**	0
Other liabilities		**175**	910
Accruals and deferred expenses		**8 842**	10 533
		11 201	16 509
Total liabilities		**159 057**	164 365
Total		**530 029**	359 227

Parent company's cash flow statement

EUR 1 000	NOTE	2021	2020
Cash flow from operating activities			
Profit after financial items		**191 227**	-4 781
Adjustments, total	16	**-198 132**	-6 793
Operating profit before change in net working capital		**-6 905**	-11 574
Change in net working capital	16	**-69**	6 250
Cash generated from operations		**-6 973**	-5 324
Interest received		**0**	1
Interest paid		**-1 558**	-1 525
Income taxes paid		**-2 640**	-4 061
Net cash flow from operating activities		**-11 171**	-10 909
Cash flow from investing activities			
Capital expenditures		**-2 401**	-822
Purchase of other shares		**-500**	-130
Proceeds from sale of fixed assets		**5 429**	10 186
Investments to subsidiaries		**-194 000**	0
Increase (-), decrease (+) in long-term receivables		**-82**	-463
Sale of other shares		**1 739**	0
Dividends received		**194 195**	162
Net cash flow from investing activities		**4 380**	8 932

EUR 1 000	NOTE	2021	2020
Cash flow from financing activities			
Received advanced payments		**-4 250**	0
Group contribution		**30 000**	30 000
Increase (-), decrease (+) in short-term receivables		**2 057**	-6 150
Increase (+), decrease (-) in short-term liabilities		**0**	-1 475
Dividends paid		**-21 016**	-20 397
Net cash flow from financing activities		**6 791**	1 978
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

EUR 1 000	31.12.2021	31.12.2020
1. NET SALES		
Net sales by market area		
Nordic countries	**10 545**	11 023
Continental Europe	**4 264**	4 456
United Kingdom and Ireland	**999**	858
Baltic countries	**853**	805
Total	**16 661**	17 143
2. OTHER OPERATING INCOME		
Profit on sales of other fixed assets	**4 705**	8 596
Other income	**3 648**	2 547
Total	**8 353**	11 143
3. NOTES CONCERNING THE PERSONNEL AND THE MEMBERS OF ADMINISTRATIVE BODIES		
Personnel expenses		
Salaries and remuneration for Managing Directors and the members of the Board of Directors	**1 681**	993
Other wages and salaries	**6 073**	5 954
Pension expenses	**1 241**	1 031
Other personnel expenses	**289**	214
Total	**9 285**	8 192
Average number of personnel		
Nordic countries	**46**	42
Total	**46**	42

EUR 1 000	31.12.2021	31.12.2020
4. DEPRECIATION AND VALUE ADJUSTMENTS		
Depreciation on tangible assets	**99**	100
Depreciation on intangible assets	**464**	527
Total	**563**	627
5. FEES FOR AUDITING COMPANIES		
Ernst & Young		
Statutory auditing fees	**71**	156
Other fees	**576**	293
Others		
Tax consulting	**87**	54
Other fees	**345**	635
6. FINANCIAL INCOME AND EXPENSES		
Dividend income		
From group companies	**194 000**	0
From others	**195**	162
Total	**194 195**	162
Interest income and other financial income		
From others	**3**	1
Total	**3**	1
Interest expenses and other financial expenses		
To group companies	**1 521**	1 503
To others	**29**	30
Total	**1 550**	1 533

EUR 1 000	31.12.2021	31.12.2020
7. APPROPRIATIONS		
Group contribution	**7 000**	30 000
Total	**7 000**	30 000
8. INCOME TAXES		
Income tax on ordinary business	**398**	666
Income tax on group contributions	**-1 400**	-6 000
Total	**-1 002**	-5 334
9. FIXED ASSETS		
Intangible rights		
Acquisition cost on 1 January	**461**	461
Decrease	**-254**	0
Acquisition cost on 31 December	**207**	461
Accumulated depreciation on 1 January	**-453**	-436
Depreciation of the financial year	**-4**	-17
Accumulated depreciation and value adjustments related to decreases and transfers	**254**	0
Accumulated depreciation on 31 December	**-204**	-453
Book value on 31 December	**3**	7

EUR 1 000	31.12.2021	31.12.2020
Other long term expenses		
Acquisition cost on 1 January	**3 830**	3 406
Increase	**0**	424
Decrease	**-2 114**	0
Acquisition cost on 31 December	**1 716**	3 830
Accumulated depreciation on 1 January	**-2 942**	-2 432
Depreciation of the financial year	**-460**	-510
Accumulated depreciation and value adjustments related to decreases and transfers	**2 106**	
Accumulated depreciation on 31 December	**-1 295**	-2 942
Book value on 31 December	**421**	888
Advanced payments		
Acquisition cost on 1 January	**398**	0
Increase	**2 373**	398
Book value on 31 December	**2 772**	398
Land and water		
Acquisition cost on 1 January	**3 060**	4 649
Increase	**0**	0
Decrease	**-724**	-1 589
Book value on 31 December	**2 337**	3 060
Buildings and constructions		
Acquisition cost on 1 January	**2 158**	2 517
Decrease	**0**	-359
Acquisition cost on 31 December	**2 158**	2 158
Accumulated depreciation on 1 January	**-508**	-781
Depreciation of the financial year	**-86**	-86
Accumulated depreciation and value adjustments related to decreases and transfers	**0**	359
Accumulated depreciation on 31 December	**-595**	-508
Book value on 31 December	**1 563**	1 650
Machinery and equipment		
Acquisition cost on 1 January	**377**	377
Increase	**35**	0
Decrease	**-13**	0
Acquisition cost on 31 December	**398**	377
Accumulated depreciation on 1 January	**-282**	-268
Depreciation of the financial year	**-13**	-14
Accumulated depreciation and value adjustments related to decreases and transfers	**13**	0
Accumulated depreciation on 31 December	**-281**	-282
Book value on 31 December	**117**	95

Revaluations

Above mentioned book values include revaluations as follows:

Land and water		
Value on 1 January	**87**	224
Decrease	**-87**	-137
Value on 31 December	**0**	87

10. FINANCIAL ASSETS

Shares in group companies		
Acquisition cost on 1 January	**312 705**	312 705
Increase	**194 000**	0
Book value on 31 December	**506 705**	312 705

EUR 1 000	31.12.2021	31.12.2020
Other shares		
Acquisition cost on 1 January	**1 654**	1 337
Increase	**500**	450
Decrease	**-385**	-133
Book value on 31 December	**1 769**	1 654
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	**2 491**	2 216

11. RECEIVABLES

Long-term receivables

From others		
Loan receivables	**545**	463
Total	**545**	463

Short-term receivables

From group companies		
Accounts receivable	**34**	50
Other receivables	**11 094**	36 150
Total	**11 128**	36 200
Main items included in accruals and deferred income		
Accrued personnel expenses	**0**	1
Income tax receivable	**101**	0
Other	**1 044**	537
Total	**1 146**	538

12. SHAREHOLDERS' EQUITY

EUR 1 000	31.12.2021	31.12.2020
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
Reserve fund on 1 January	**76**	76
Reserve fund on 31 December	**76**	76
Reserve for invested non-restricted equity on 1 January	**4 050**	4 050
Reserve for invested non-restricted equity on 31 December	**4 050**	4 050
Retained earnings on 1 January	**179 374**	179 886
Profit distribution	**-21 016**	-20 397
Retained earnings on 31 December	**158 359**	159 489
Net profit for the financial year	**197 226**	19 884
Total shareholders' equity	**370 972**	194 761
Distributable equity		
Retained earnings from previous periods 31.12.	**158 359**	159 489
Reserve for invested non-restricted equity	**4 050**	4 050
Net profit for the financial year	**197 225**	19 884
Distributable equity	**359 634**	183 423

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

13. PROVISIONS

EUR 1 000	31.12.2021	31.12.2020
Other mandatory provisions	**0**	100
Total	**0**	100

14. LIABILITIES

EUR 1 000	31.12.2021	31.12.2020
Long-term liabilities		
To group companies		
Other liabilities	**147 856**	147 856
Total	**147 856**	147 856
Short-term liabilities		
Main items included in accruals and deferred expenses		
Accrued personnel expenses	**5 552**	1 222
Income tax liability	**902**	2 541
Other	**2 388**	6 771
Total	**8 842**	10 533

15. CONTINGENT LIABILITIES

EUR 1 000	31.12.2021	31.12.2020
Other guarantees on behalf of group companies		
Guarantees given	**55 000**	45 000
Total	**55 000**	45 000
Other liabilities		
Guarantee commitments	**0**	4 250
Total	**0**	4 250
Leasing liabilities		
Leasing liabilities, which mature within one year	**364**	627
Leasing liabilities, which mature after one year	**245**	446
Total	**609**	1 073

16. CASH FLOW STATEMENT

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

EUR 1 000	31.12.2021	31.12.2020
Depreciation	**563**	627
Sales gains and losses on fixed assets	**-4 705**	-8 596
Other financial items	**-192 637**	1 362
Other income and expenses	**-1 353**	-186
Total	**-198 132**	-6 793
Change in net working capital		
Increase (-), decrease (+) in short-term receivables	**-549**	16 268
Increase (+), decrease (-) in non interest bearing short-term liabilities	**481**	-10 018
Total	**-69**	6 250

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 2021 is EUR 359 634 293.50 including retained earnings for the previous years EUR 158 358 568.30, reserve for invested non restricted equity EUR 4 050 000.00 and result for the financial year EUR 197 225 725.20.

The Board proposes that a dividend of EUR 54.00 per share on 502 765 shares to be paid, totalling EUR 27 149 310.00 and that in addition the Shareholders' meeting authorises the Board of Directors to decide by the end of 2022 on the payment of extra dividend of no more than EUR 17.40 per share, totalling EUR 8 748 111.00. The parent company will retain distributable equity of EUR 323 736 872.50.

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

Helsinki, 17 March 2022

Jukka Moisio
Chairman of the Board

Mathias Bergman

Christian Köhler

Eduard Paulig

Heikki Takala

Petra Teräsaho

Christina Wergens

Rolf Ladau
Managing Director

Auditors' report has been issued today.
Helsinki, 18 March 2022

Ernst & Young Oy

Terhi Mäkinen,
Authorised 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, 2021. 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 18.3.2022

Ernst & Young Oy
Authorised Public Accountant Firm

Terhi Mäkinen
Authorised Public Accountant

PAULIG

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