Oy Karl Fazer Ab

Financial statements

1.1. - 31.12.2019

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Board of Directors' Report

In 2019, Fazer continued its transformation into a modern sustainable food company with a joint direction. The Group decided to sell Fazer Food Services in order to focus on its fast-moving consumer goods (FMCG) and direct-to-consumer businesses. The acquisition of Kaslink, an expert in high-quality oat-based food products, as well as the strategic decision to invest in doubling its oat milling capacity in Lahti, Finland and Lidköping, Sweden took Fazer closer to the goal of becoming the leading plant-based player in Northern Europe. Fazer started a 50-million-euro investment in the construction of a ground-breaking xylitol factory in Lahti, Finland, an innovation where side streams from oat milling will be used to produce xylitol, and production waste will be used as fuel in a bio-heating plant that will provide energy for Fazer's entire factory area. Furthermore, Fazer focused strongly on its 'consumer first' approach.

Fazer Group's continuing operations' net sales increased and operating profit decreased from the previous year. Fazer Food Services is reported as discontinued operations in the Financial Statements.

Markets, business environment and sales

In Finland, the economic development continued to be positive, but the GDP growth slowed down from previous year. Also, the growth of the Swedish economy and Russia's GDP growth weakened from previous year. The biggest foreign currency impact on Fazer came from the Swedish krona, which weakened by 3% against the euro, and from the Russian rouble, which strengthened by 2% against the euro. The net impact of currency changes was negative on net sales but slightly positive on operating profit.

The Fazer Bakery business saw fierce competition especially in Sweden and Russia. At the same time, the business in Finland and the Baltics developed positively, and Fazer Bakery increased its market share in Finland and Latvia. Artisanal bread maintained its popularity, and Fazer Bakery invested in artisanal baking through its shop-in-shop and bake-off concepts. As many as 21 new shop-in-shops were opened in Finland, and the concept was expanded to the Baltics. In the fresh pre-packed bread category, the new additions to Fazer Street Food, sourdough and oat products, were received well. Fazer Bakery's net sales increased by 2% to 565.2 M€ (2018: 552.3). Fazer Bakery business area organisation was simplified in October to bring decision-making closer to the customers. Value creation programmes are in place to increase operational efficiency in all Fazer Bakery's operations.

Fazer Confectionery's focus on profitable growth yielded excellent results, with increased sales in all key categories. Strong novelties and marketing campaigns generated growth in chocolate bars, candy bags, and chocolate tablets. Also, the seasonal portfolio continued its strong performance. Fazer Confectionery's net sales increased by 6% and reached 353.1 M€ (2018: 333.1). In Finland, Fazer's market share increased, and market share development was positive also in the majority of other markets. International growth was supported with strong development in Denmark, successful sales initiatives in Asia and the launch of Fazer Nordi premium chocolates in the US. Fazer Candy Store, opened in 2018 to serve consumers online, was extended in the end of 2019 to include products from all Fazer's business areas and renamed Fazer Store.

Fazer Lifestyle Foods offers interesting growth opportunities for Fazer. The non-dairy market continued its strong development, and the Fazer Yosa core offering progressed well in

most markets. Growth in the smoothie category was not on the desired level, but actions are taken to improve the situation. Fazer Lifestyle Foods' net sales increased by 30% and amounted to 158.1 M€ (2018: 121.8). Strong investments into Fazer Lifestyle Foods' brands and categories continued to drive the growth. Kaslink, a well-positioned player on the Finnish market with Nordic food offering including cooking products, drinks and snacks, was acquired. An investment decision of 30 million euros was made to double Fazer's oat milling capacity in Lahti, Finland and Lidköping, Sweden, to meet the growing demand for oats and provide top-quality ingredients for Fazer's businesses, in particular for the non-dairy, plant-based meals and breakfast categories. A ground-breaking 50-million-euro investment in building a xylitol manufacturing facility in Lahti was started.

The Fazer Retail business unit's net sales increased slightly to 47.1 M€ (2018: 46.4), despite the challenging market situation prevailing especially in Sweden. New players were increasing their market presence, and the share of unpacked bread was growing in the grocery channel. In 2019, Fazer Retail opened six new stores in new locations in Finland and Sweden.

The Fazer Experience Visitor Centre was visited by more than 230,000 people in 2019, which is a new record.

Discontinued operations

Fazer is focusing on its FMCG and direct-to-consumer businesses. As part of this development and following the set strategy, Fazer Group announced the sale of the Fazer Food Services business to Compass Group in June. The sale was approved by the EU Commission's competition authorities on 28 January 2020 and was completed on 31 January 2020. In 2019, Fazer Food Services' performance improved from the previous year due to operational improvements and better contract retention, and its net sales reached 597.3 M€ (2018: 593.2). A programme focusing on four profit drivers – portfolio management, revenue management, margin management and fixed cost management – was successfully implemented to improve performance. Sales in comparable units grew in all countries but particularly in Finland. The value of new contracts signed exceeded the value of lost contracts, which supports the profitable growth plan.

Fazer Food Services is reported as discontinued operations in Fazer Group's Financial Statements. The result of discontinued operations is presented in the income statement net of tax under "Result for the period, discontinued operations" and the comparative information is restated accordingly. Assets related to discontinued operations are reported in balance sheet as "Assets held for sale" and liabilities as "Liabilities related to assets held for sale". The balance sheet is not restated for comparative period. The cash flow statement is not restated, so it includes discontinued operations in 2019 and 2018.

Financial results for continuing operations

Fazer's net sales for the continuing operations increased by 7% from previous year and reached 1,097.0 M€ (1,029.2). The foreign exchange rate changes reduced the net sales by 4.4 M€. The businesses acquired in 2019 increased the net sales by 23.6 M€ compared to previous year.

Operating profit for the continuing operations decreased to 49.1 M€ (55.9). Operating profit included 4.2 M€ (2.7) one-time restructuring costs and write-offs (net), mainly related to the restructuring of the bakery shop network in Sweden and the bakery operations in Russia as well as the closure of the Oulu bakery in Finland. The 2019 result was also burdened by 5.2 M€ costs related to the acquisition of Kaslink and expected credit losses related to a Russian retail chain that became insolvent. Profit for the financial period amounted to 38.9 M€ (41.6) for the continuing operations.

Cash flow and financial position

The Group's financial position remained strong. Reported interest-bearing net debt totalled 127.0 M€ (95.0) and gearing was 22.5% (17.5%). The Group's equity ratio was 52.6% (56.8%).

The Group's reported cash flow from operating activities was 144.8 M€ (114.6) and gross investments amounted to 107.1 M€ (50.5). Besides the Kaslink acquisition, majority of the investments were done in new production equipment and upgrades to the existing machinery in the bakery and confectionery operations as well as the construction of the new xylitol factory.

Key figures	2019	2018	2017
Net sales, M€	1,097.0	1,029.2	1,038.2
Operating profit, M€	49.1	55.9	60.5
- share of net sales, %	4.5	5.4	5.8
Return on equity, %	13.4	11.6	13.3
Equity ratio, %	52.6	56.8	55.1
Gearing, %	22.5	17.5	14.2

At year-end, Fazer had 8,805 employees (8,884) in the continuing operations and 6,958 (6,857) in discontinued operations. Out of these, 65 (91) were employed by the parent company.

Personnel, continuing operations	2019	2018	2017
Number of employees, 31.12.	8,805	8,884	9,094
Number of employees, avg. FTE	7,532	7,646	7,589
Wages and salaries, M€	249.6	227.5	237.0

Personnel, discontinued operations	2019	2018	2017
Number of employees, 31.12.	6,958	6,857	6,939
Number of employees, avg. FTE	5,541	5,596	5,609
Wages and salaries, M€	196.0	196.2	196.3

Strategy implementation

In 2019, Fazer continued the implementation of its strategy with the aim of transforming into a modern sustainable food company with a joint direction in Northern Europe and beyond. Fazer targets growth and value creation through portfolio choices, research and innovation, investments into foodtech, continued operational excellence and structural improvements.

In terms of portfolio choices, Fazer decided to focus on its FMCG and direct-to-consumer businesses and agreed to sell Fazer Food Services to Compass Group. This transaction was completed on 31 January 2020. In addition, Fazer strengthened the Fazer Lifestyle Foods business through the acquisition of Kaslink. With regard to innovation and foodtech, Fazer started to build a xylitol factory in Lahti, made the first Low Fodmap (Fazer LOFO) product launches and entered into a strategic partnership with Solar Foods to research the use of a new sustainable protein ingredient in future food applications. Fazer also decided to double its oat milling capacity to meet the growing demand for oats for the non-dairy, plant-based meals and breakfast categories. Focus on strategy implementation was clearly visible also in the Fazer Confectionery business, where strong emphasis was put on growth and operational excellence. This resulted in achieving 6% annual organic growth and starting the planning of a major upgrade of confectionary manufacturing operations. In Fazer Bakery, the focus was on the expansion of the shop-in-shop bakery business, achieving 24% annual organic growth, and on negotiations for the Vuohelan Herkku gluten-free bakery business, that was acquired in January 2020. Each of the businesses and Group functions continued seeking opportunities for operational excellence with a large number of value creation initiatives in implementation.

Quality, environment, occupational health & safety and food safety

Fazer's quality, occupational health and safety and environmental management continued to improve through internal programmes and third-party certifications. During 2019, Fazer implemented a system for QEHS management in Finland. It ensured a more systematic accident and incident management, data availability and transparency. Lost-time accident frequency increased by 15% from 2018 in the continuing operations.

In 2019, there were three product recalls regarding food safety. Product recalls were made due to microbiological and allergen deviations.

All Fazer's internal production sites have food safety management certifications (FSSC 22000 and/or IFS) approved by the Global Food Safety Initiative (GFSI), and food fraud and food defence mitigation actions continued. A new Group-wide access control system was implemented in most of the operating countries.

Fazer continued to engage in energy efficiency activities, started to work on its long-term energy plan for 2021 and onwards, and conducted regulatory energy audits in Finland. Waste reduction actions across the Group were carried out, focusing on preventing food waste and recycling side streams. As part of the water stewardship commitment, site specific water risk assessments were carried out, and this work continues. The energy consumption per produced tonne declined while waste, by-products and water consumption per produced tonne increased.

Sustainability

During 2019, systematic work continued towards our sustainability targets for 2030.. Fazer focused on implementing sustainability work through four Core goals: 1) 50% less emissions, 2) 50% less food waste, 3) 100% sustainably sourced and 4) more plant based. The highlights of Fazer's sustainability work in 2019 include systematic work to improve energy efficiency to reduce climate emissions, continued focus on food waste reduction and more focus on water related issues. Fazer continued its commitments on the sustainable sourcing of cocoa, grain, soy, palm oil, fish and cage-free eggs and increasing its offering of plant-based foods. In 2019, the development in the core goals was following: the emissions declined, the amount of food waste increased slightly, the supplier requirements were clarified, and the sourcing related commitments continued. Further, the plant-based offering increased. Fazer's reputation remained on a good level in its main markets.

Risk management

Fazer regularly evaluates and analyses the Group's strategic, operational and financial risks within the framework of its risk management policy and takes action to mitigate these risks. In 2019, one major risk was realised when Fazer Lifestyle Foods' Lidköping mill experienced a fire. Due to prompt actions by the personnel on the site, no personnel injuries occurred, the damage was limited and the impact on deliveries to customers was mitigated. Apart from this fire, no major risks were realised. For more information on financial risk management, see Note 11.3 to the Financial Statements.

Research and development

In the nutrition and health research track, the first results of Fazer Brainhow clinical trials were published at international scientific congresses. The so-called Brave study showed the beneficial effects of a brain-friendly dietary pattern on cardiovascular health, cognitive performance and vitality. In the Power Meals study, protein-rich home meals improved protein intake, physical performance and health related quality of life in home-dwelling older people.

In the food technology research track, Fazer initiated Fazer Oathow, an R&D project with focus on oat ingredient technology. Moreover, Fazer and the Finnish start-up company Solar Foods entered into a strategic R&D partnership in order to co-develop a novel sustainable protein ingredient into new food products. The protein ingredient is made utilising carbon dioxide captured from air. Fazer's cooperation with universities continued and resulted in the publication of multiple master thesis works.

Research and development costs amounted to 9.3 M€ (8.5) for the continuing operations.

Changes in Group legal structure

Fazer continued its work to simplify its legal structure. The changes in the Group legal structure are disclosed in Note 24 to the Financial Statements.

Shares and share capital

At the end of 2019, the parent company had 3,958,763 preference shares and 2,365,200 ordinary shares. Preference shares carry a preferential right of at least 6% of the share's nominal amount, ahead of ordinary shares, for the annual dividend from the company's distributable profit. At the Annual Shareholders' Meeting, each ordinary share is entitled to ten votes and each preference share carries one vote.

Board of Directors and auditors

At the Shareholders' Meeting on 3 April 2019, the following Board members were re-elected: Berndt Brunow (Chairman), Anders Dreijer (Vice Chairman), Klaus Cawén, Ketil Eriksen, Jan Fazer, Johan Linder, Cecilia Marlow and Juhani Mäkinen.

Authorised Public Accountants PricewaterhouseCoopers were chosen as auditors, with Authorised Public Accountant Martin Grandell as auditor-in-charge.

Outlook for 2020

Fazer will continue its transformation, focusing on its FMCG and direct-to-consumer businesses. Development of Fazer's business and product portfolios will remain key cornerstones in implementing the strategy, along with the renewed Fazer brand and several growth initiatives. In addition to organic growth, active M&A work will continue to strengthen growth and internationalisation. Fazer will also strengthen its competitiveness further through its value creation programmes and the continuous development of its organisational and structural efficiency. In 2020, work to improve both net sales and operating profit continues but the outcome is subject to the development of the economy as a total which is highly impacted by the uncertainties caused by the Coronavirus (COVID-19).

Events after the reporting period

In January 2020, Fazer announced plans to close its production facility in Kaarina, Finland and started collaboration negotiations affecting all employees at the Kaarina factory. Fazer has evaluated different options for increasing efficiency in the production of Fazer Yosa oat products and enabling further growth, and in February 2020, decided to close the production facility in Kaarina and move the operations to Fazer's factory in Koria.

Also in January 2020, Fazer announced the acquisition of Vuohelan Herkku's bakery and mill businesses. Vuohelan Herkku is one of the forerunners in gluten-free baking in Finland and has a new gluten-free bakery in Lahti. Through this acquisition, Fazer becomes the market leader in gluten-free bakery products in Finland.

As part of Fazer's shift of focus to the FMCG and direct-to-consumer business, Fazer Group announced the sale of Fazer Food Services to Compass Group in June 2019. The sale was approved by the EU Commission's competition authorities on 28 January and took effect on 31 January 2020.

In February 2020, Fazer decided to reorganise the Finnish field sales forces of its businesses into two joint organisations: one for fresh goods and one for long shelf life products.

In March 2020, Fazer announced plans to change its supply chain and product development organisations in the confectionery business and started collaboration negotiations. Fazer has evaluated different alternatives to increase the efficiency of the cooperation between the supply chain and product development operations and come to the conclusion that the organisational structure could be changed in order to clarify roles and responsibilities.

In addition to other mitigation actions already ongoing due to the coronavirus epidemic (COVID-19), Fazer started collaboration negotiations in March 2020 to temporarily lay off the entire personnel of some 400 persons in Fazer Ravintolat Oy (mainly Fazer Retail Finland).

Proposal for distribution of profit

The parent company's distributable funds amount to 623,953,740.60 euros of which 50,002,845.97 euros represent profit for the financial year.

The Board of Directors proposes to the Shareholders' Meeting that distributable funds should be appropriated as follows:

- to pay a dividend of 9.10 euros per share	57,548,063.30 €
- to leave in profit brought forward	566,405,677.30 €
	623,953,740.60 €

The proposed dividend does not pose any risk to the company's financial standing.

Consolidated income statement

EUR thousand	Notes	2019	2018
Continuing operations			
Revenue	4	**1 097 009**	**1 029 178**
Other operating income	5.1	28 850	20 597
Change in finished goods and work in progress		1 141	-3 374
Materials and services	5.2	-406 671	-370 495
Employee benefits expenses	5.3	-316 295	-289 487
Depreciation, amortization and impairment	8, 9	-62 072	-64 977
Other operating expenses	5.4	-292 881	-265 581
Share of profit/loss of associated companies	26	-	-
Operating profit		**49 081**	**55 861**
Financial income and expenses	6		
Financial income		4 852	1 442
Financial expenses		-2 321	-3 791
Total financial income and expenses		**2 531**	**-2 349**
Profit before income tax		**51 611**	**53 513**
Income tax	7.1	-12 679	-11 899
Result for the period, continuing operations		**38 932**	**41 614**
Result for the period, discontinued operations	22	**35 437**	**22 259**
Result for the period		**74 369**	**63 873**
Result from continuing operations attributable to			
Owners of the parent company		36 729	40 052
Non-controlling interests		2 204	1 561
Result from discontinued operations attributable to			
Owners of the parent company		29 684	18 483
Non-controlling interests		5 752	3 777
Result attributable to			
Owners of the parent company		66 413	58 535
Non-controlling interests		7 956	5 338

Consolidated statement of comprehensive income

EUR thousand	Notes	2019	2018
Profit for the year		**74 369**	**63 873**
Other comprehensive income			
Items that may be classified to profit or loss			
Cash flow hedges		187	252
Translation differences		5 193	-16 031
Income tax relating to these items		-37	-50
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	18	-209	-186
Income tax relating to these items		48	40
Other comprehensive income, net of tax		**5 181**	**-15 977**
Total comprehensive income for the period		**79 550**	**47 896**
Of which attributalble to discontinued operations		36 541	21 999
Attributable to			
Owners of the parent company		69 267	45 977
Non-controlling interests		10 283	1 919
Total comprehensive income for the period attributable to the owners of the parent company			
Continuing operations		38 700	27 703
Discontinued operations		30 567	18 274
Total		**69 267**	**45 977**
Total comprehensive income for the period attributable to non-controlling interests			
Continuing operations		4 310	-1 805
Discontinued operations		5 973	3 724
Total		**10 283**	**1 919**

Consolidated balance sheet

EUR thousand	Notes	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Goodwill	10	158 614	158 720
Intangible assets	9	48 982	52 047
Property, plant and equipment	8	411 850	408 855
Investments in associated companies	26	-	1 165
Other non-current financial assets	11.1	3 110	3 116
Other non-current receivables	11.1	5 155	1 958
Deferred tax assets	7.3	520	1 106
Total non-current assets		**628 232**	**626 967**
Current assets			
Inventories	12	86 462	91 761
Trade and other receivables	13	139 708	198 867
Other current financial assets	11.1	2 000	-
Income tax receivables		3 513	2 994
Cash and cash equivalents	14	40 554	39 326
Total current assets		**272 237**	**332 948**
Assets held for sale	22	171 914	-
TOTAL ASSETS		**1 072 383**	**959 914**
EQUITY AND LIABILITIES	15		
Share capital		126 479	126 479
Other reserves		134	-15
Retained earnings		367 502	358 462
Equity attributable to the owners of the parent company		**494 116**	**484 927**
Non-controlling interests	25	69 570	59 434
Total equity		**563 686**	**544 361**
Non-current liabilities			
Interest-bearing liabilities	11.1, 17	33 145	51 725
Deferred tax liabilities	7.3	17 870	16 616
Pension obligations	18	4 193	4 182
Provisions	16	1 758	2 042
Other non-current liabilities		6 864	8 808
Total non-current liabilities		**63 829**	**83 373**
Current liabilities			
Interest-bearing liabilities	11.1, 17	134 432	82 635
Trade and other payables	19	191 116	244 758
Provisions	16	548	588
Income tax liabilities		1 643	4 199
Total current liabilities		**327 740**	**332 181**
Total liabilities		**391 569**	**415 553**
Liabilities related to assets held for sale	22	117 128	-
TOTAL EQUITY AND LIABILITIES		**1 072 383**	**959 914**

Consolidated statement of changes in equity

	Attributable to owners of the parent company						
EUR thousand	Share capital	Hedge reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2019	**126 479**	**-15**	**-15 803**	**374 266**	**484 927**	**59 434**	**544 361**
Profit for the period				**66 413**	**66 413**	**7 956**	**74 369**
Other comprehensive income							
Fair value adjustments of derivatives, net of taxes		640			640		640
Transferred to the statement of income, net of taxes		-415			-415		-415
Transferred to inventories, net of taxes		-75			-75		-75
Remeasurement on defined benefit plan, net of taxes				-198	-198	37	-161
Translation differences			2 903		2 903	2 290	5 193
Comprehensive income for the period		**149**	**2 903**	**-198**	**2 854**	**2 327**	**5 181**
Transactions with owners in their capacity as owners							
Dividends provided for or paid				-60 078	-60 078	-147	-60 225
Balance at 31 December 2019	**126 479**	**134**	**-12 900**	**380 403**	**494 116**	**69 570**	**563 686**

	Attributable to owners of the parent company						
EUR thousand	Share capital	Hedge reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2018	**126 479**	**-216**	**-3 193**	**375 942**	**499 012**	**58 310**	**557 322**
Profit for the period				**58 535**	**58 535**	**5 338**	**63 873**
Other comprehensive income							
Fair value adjustments of derivatives, net of taxes		170			170		170
Transferred to the income statement, net of taxes		32			32		32
Remeasurement on defined benefit plan, net of taxes				-149	-149	2	-147
Translation differences			-12 610		-12 610	-3 421	-16 031
Comprehensive income for the period		**201**	**-12 610**	**-149**	**-12 558**	**-3 419**	**-15 977**
Transactions with owners in their capacity as owners							
Dividends provided for or paid				-60 710	-60 710	-147	-60 857
Group internal restructuring				648	648	-648	0
Balance at 31 December 2018	**126 479**	**-15**	**-15 803**	**374 266**	**484 927**	**59 434**	**544 361**

Consolidated statement of cash flows

EUR thousand	Notes	2019	2018
Cash flows from operating activities			
Result for the period		74 369	63 873
Adjustments [1]		82 212	95 580
Change in working capital [2]		12 096	-19 269
Interest received		1 598	1 260
Interest paid		-1 526	-1 401
Other financial income and expenses, net		-1 471	-1 673
Dividends received		294	245
Income taxes paid		-22 815	-23 976
Net cash from operating activities		**144 756**	**114 639**
Cash flows from investing activities			
Purchases of tangible and intangible assets	8, 9	-57 473	-50 529
Business acquisitions	23	-47 587	-
Investments in financial assets		-2 000	-
Proceeds from sale of tangible and intagible assets		804	1 568
Proceeds from sale of other financial assets		-	21 941
Proceeds from sale of businesses	23	8 781	-
Repayment of loan receivables		2 800	-
Net cash from investing activities		**-94 675**	**-27 020**
Cash flows from financing activities			
Repayment of current debt	11.4	-34 163	-8 690
Proceeds from current debt	11.4	12 200	18 152
Net cash flows from commercial papers	11.4	60 996	-11 494
Repayment of leasing debt	11.4	-25 295	-24 624
Dividends paid		-60 225	-60 857
Net cash flows from financing activities		**-46 486**	**-87 514**
Net increase (+) decrease (-) in cash and cash equivalents		**3 596**	**106**
Cash and cash equivalents at the beginning of the period	14	39 326	40 268
Exchange rate difference		325	-1 049
Cash and cash equivalents at the end of the period	14	**43 246**	**39 326**

1) Adjustments			
Depreciations, amortisations and impairments	8, 9	70 052	81 326
Income taxes		21 950	17 753
Share of result in associated companies		-401	-335
Financial income and expenses	6	-2 373	2 594
Non-cash income and expenses		-2 275	-6 177
Other non-operating adjustments		-4 742	420
Total adjustments		**82 212**	**95 580**

2) Change in working capital		
Decrease (+) / increase (-) in inventories	1 361	-3 078
Decrease (+) / increase (-) in trade and other receivables	-10 436	1 496
Decrease (-) / increase (+) in trade and other payables	21 171	-17 687
Change in working capital	**12 096**	**-19 269**

Figures in consolidated statement of cash flows include both continuing and discontinued operations.

Notes to consolidated financial statements

1. Corporate information

Oy Karl Fazer Ab is a Finnish limited liability company organized under the laws of Finland with its registered office in Helsinki. Oy Karl Fazer Ab ("Company" or the "Parent company") is the parent company of Fazer Group ("Fazer Group" or "Group").

Fazer Group is an international family-owned company offering quality bakery, confectionery, biscuit and grain products, plant-based meals non-dairy products, on-the-go food & drinks as well as café services. Continuing operations consists of three business areas, and one business unit as well as the shared functions of the Group. Fazer operates in nine countries and exports to around 40 markets. For a full list of shareholdings see Note 24. At year-end 2019, continuing operations in Fazer Group had 8,805 employees in nine countries.

Discontinued operations consists of the food services business area. It had operations i five countries and 6,958 employees at the end of 2019.

The Board of Directors approved these financial statements for issue on March 24, 2020. According to the Finnish Companies Act, the shareholders have the opportunity to approve or reject the financial statements at the Annual General Meeting held after their publication. Furthermore, the Annual General Meeting can decide on modifications to be made to the financial statements.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), including IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on December 31, 2019. The term 'IFRS standards' refers to standards and interpretations which are approved and adopted by the European Union (regulation EY 1606/2002) and thus are in force in the Finnish legislation.

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated.

Euro is the parent company's functional and presentation currency. Items concerning the performance and financial position of the Group's units are measured by using the currency of the primary economic environment in which the units operate ("the functional currency").

Numbers in these financial statements are presented in thousand euro and they have been rounded from exact numbers and therefore the sum of numbers presented individually can deviate from the total sum.

2.2 Basis of consolidation

The consolidated financial statements comprise the parent company Oy Karl Fazer Ab and its subsidiaries, in which the Group has control. The Group controls an entity when it is exposed or entitled to variable returns from its involvement with the entity and is able to affect such returns through the exercise its powers over the entity. If the Group does not hold majority of shares in the entity, all the circumstances through which such control may be gained in the absence of the majority of votes are assessed. Such circumstances include contract-based arrangements between other holders of voting rights, any rights arising from other contract-based

arrangements as well as the voting rights and potential voting rights held by the Group.

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that control no longer exists. All group companies follow accounting principles applied by Fazer Group.

Acquired subsidiaries are accounted for by using the acquisition method. Accordingly, the consideration transferred, and the identifiable assets and liabilities assumed in the acquired company are measured at the fair value at the date of the acquisition. The amount by which the purchase price, possible part belonging to the non-controlling interests, possible earlier acquired share all together, exceeds the acquired company's net identifiable assets, liabilities and contingent liabilities measured at fair value is goodwill. If this is less than the acquired company's net identifiable assets, liabilities and contingent liabilities measured at fair value and in case of a bargain purchase, the difference is recognised directly to the consolidated statement of comprehensive income. Transaction costs are expensed in the same financial period in which they occur. Any contingent consideration (additional purchase price) related to the acquisition is measured at fair value on the date of acquisition and classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair value on the last day of the reporting period, and the resulting loss or gain is recognised through the consolidated income statement. Contingent consideration classified as equity is not remeasured.

Associated companies are companies in which the Group holds voting rights of 20-50% and in which the Group has significant influence, but not control. The associated companies are included in the consolidated financial statements by using the equity method. Under the equity method, the Group's share of the profit or loss of an associate is recognized above operating profit. The Group's interest in an associated company is recognised in the balance sheet at an amount that reflects the Group's share of the net assets of the associate together with goodwill identified on acquisition, less any impairment. Significant unrealized gains between the Group and the associated companies are eliminated to the extent of the Group's ownership. Associated companies' financial statements are, when necessary, adjusted to correspond with the accounting principles used in the Group prior to consolidation. If the Group's share of losses exceeds the carrying amount of the investment, the carrying amount is reduced to nil and the recognition of further losses ceases unless the Group has incurred obligations in respect of the associated companies.

The investments in subsidiaries have been eliminated by using the acquisition cost method. All transactions between Group companies as well as assets and liabilities, income and expenses, dividends and unrealized internal margins have been eliminated in the consolidated financial statements. Non-controlling interests share of the result is presented separately in the income statement and the share of the equity allocated to the non-controlling interest is presented separately within equity. All transactions with non-controlling interests are recorded in equity when the parent company remains in control. When the Group loses the control in a subsidiary, the remaining investment is re-measured to its fair value and the change in the carrying amount is recognized in the income statement.

2.3 Summary of significant accounting policies

ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets are classified as held for sale if their carrying amount are expected to be recovered primarily through a sale rather than through continuing use. Classification as held-for-sale requires that the sale is considered highly probable, the asset is available for immediate sale in its present condition, the management is committed to the sale and the sale is expected to be completed within one year from the date of classification. From the date of classification such assets are stated at the lower of carrying amount and fair value less cost of disposal and recognition of depreciations and amortizations ceases.

Operations are classified as discontinued operations in case a component of an entity has either been disposed of, or is classified as held-for-sale. Furthermore, it represents a separate major line of business or geographical area of operations, is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. A component of an entity is defined as operations and cash flows which can be clearly distinguished, operationally and

for financial reporting purposes, from the rest of the entity. Intra-group revenues and expenses between continuing and discontinued operations are eliminated, except for those revenues and expenses that are considered to continue after the disposal of the discontinued operation.

The result for the period of discontinued operations is presented as a separate item in the income statement and the comparative information in the income statement is restated accordingly.

FOREIGN CURRENCY ITEMS

Transactions in foreign currencies are translated into the respective functional currencies of Group companies using the exchange rates at the dates of the transactions. Receivables and payables in foreign currencies are translated using exchange rates at the end of the reporting period. Foreign exchange rate gains and losses resulting from receivables and payables relating to operating activities are included in the respective items above operating profit. Foreign exchange rate gains and losses relating to financial assets and liabilities are included in financial income and expenses in the income statement.

Income statements of foreign group companies are translated into euros using the average exchange rates of the reporting period and balance sheets are translated using the exchange rates at the end of the reporting period. The translation of the reporting period's result by using different rates in the income statement and the balance sheet causes a translation difference, which is recognised in equity and in other comprehensive income. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries and the translation of the equity items accumulated after the acquisition are recognised in other comprehensive income. When a subsidiary is disposed, any accumulated translation difference relating to the disposed subsidiary are recognised as part of the gain or loss of the sale. Goodwill arising from acquisitions of foreign entities as well as the fair value adjustments of assets and liabilities are treated as assets and liabilities of the foreign entities in their functional currency. They are translated into euros as at the exchange rate of the end of the reporting period.

REVENUE RECOGNITION

Bakery, Confectionery and Lifestyle Foods products

Fazer manufactures and sells a range of bakery, biscuit, confectionery and grain products in the wholesale and retail market. Sales are recognised when control of the products has been transferred. The control is transferred when the products are delivered to the wholesaler or retailer, which have full discretion over the channel or store and price to sell the products, and there is no unfilled obligation for Fazer. Delivery occurs when the products have been delivered to the specific location or collected from agreed warehouse, the risks of obsolesce and loss have been transferred to the wholesaler, and either the customer has accepted the delivered products in accordance with the sales contract, or the group has objective evidence that all criterions for acceptance have been satisfied. In some countries and certain products, we have consignment stocks, and in these cases, the revenue is recognised when control of the products is transferred to the end customer.

The contracts concluded by the Fazer include a range of variable price components, such as volume discounts and bonuses. Revenue from these sales are recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide discounts, and revenue is only recognised to the extent that is highly probable that significant reversal will not occur.

A contract liability is recognised for expected volume discounts into same period, when the corresponding revenue is recognised. No element of financing is deemed present as the sales are usually made with 30 days payment term. Receivable is recognised when the goods are delivered.

Food and Café Services

Fazer also provides different meal service solutions for its customers. Revenue from providing services is recognised in the accounting period in which the services are rendered. The amount of revenues is determined based on the actual guests in the restaurants. In lunch restaurants revenue is generated from different components e.g. the share paid by the employer and the consumer.

In addition to lunch restaurants organised by employers, Fazer also has restaurants and cafés that are open for everyone. These restaurants offer lunches and other cafe products and the income is generated when a customer pays for the product. Revenue from these restaurants is recognised in point of time.

Revenue of the food services is recognized when the service is delivered, and the control of the service has been transferred to the customer. The control of the services transfers over time, because the customer receives and consumes the benefits of Fazer's performance as it is delivered. Fazer uses output method measuring the progress towards complete satisfaction of performance obligation. As a practical expedient, the entity recognises revenue from the satisfaction of the performance obligation based on invoicing, as the entity has the right to consideration from customer based on the sold meals. The sales of services are charged on monthly basis.

There is no significant financing component in the contracts as the payment term on sales is usually 30 days.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development costs are expensed as they are incurred, unless they relate to a clearly defined project that meets certain criteria. Development costs for such projects are capitalized if they are separately identifiable and if the products are assessed to be technically feasible and commercially viable and the related future revenues are expected to exceed the aggregate deferred and future development costs and related production, selling and administrative expenses, and if adequate resources exist or will be available to complete the project. Capitalized development costs include all directly attributable material, employee benefit and testing costs necessary to prepare the asset to be capable operating in the manner intended. Research and development costs that were initially recognized as an expense are not to be capitalized at a later date.

Amortization of such a product is commenced when it is available for use. Unfinished products are tested annually for impairment. Capitalized development expenses are amortized on a straight-line basis over their expected useful lives, not more than five years.

INCOME TAXES

The taxes recognized in the consolidated income statement include the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes have been calculated from the taxable income of each company determined by local jurisdiction.

Deferred tax assets and liabilities are recognized on all temporary differences arising between the tax bases and carrying amounts of assets and liabilities. Deferred tax liability has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax has been determined using the tax rates enacted at the balance sheet date, and as the rates changed, at the known new rate. A deferred income tax asset is recognized to the extent that it is probable that it can be utilized against future taxable income. The most significant temporary differences arise from defined benefit pension plans, property, plant and equipment (depreciation difference), inventory allowances, provisions, measurement at fair value of asset items relating to acquisitions and tax losses.

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.

GOODWILL

Goodwill arising from the business combinations is the difference between the consideration given, non-controlling interests in the acquire, the acquisition date fair value of the acquirer's previously held interest in the acquire and the fair value of the acquired net assets. Goodwill is not amortised but tested for impairment annually and always when there are indications that the value might be impaired. For the purpose of impairment testing, the goodwill is allocated to the cash generating units. Goodwill is recognised at its original acquisition cost, less impairment losses.

The carrying amount of goodwill is tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level (CGUs) for which there are separately identifiable, independent and cash inflows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is determined by using

value-in-use method. The value in use is determined by reference to discounted future cash flows expected to be generated by the asset. The discount rate used is pre-tax and reflects the time value of money and asset specific risks. Impairment loss is immediately recognized in the income statement. The impairment loss recognised of goodwill is never reversed.

INTANGIBLE ASSETS

Intangible assets include trademarks, customer relationships, immaterial rights, other capitalized development expenses i.e. patents, copyrights, licenses and software. An intangible asset is recognized in the balance sheet only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. The intangible assets with definite useful life are amortized on a straight-line basis over the expected useful lives of the asset. The intangible assets with indefinite useful lives are not amortized but tested for impairment annually.

The valuation of intangible assets acquired in a business combination is based on fair value as at the date of acquisition. Expected useful lives and indefinite lives of intangible assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, amortization periods are changed accordingly.

The estimated useful lives for intangible assets are as follows:

- Customer relationships 5–10 years
- Trademarks from 5 years to indefinite life time
- Immaterial rights 5–10 years
- Other capitalised expenditure 3-10 years

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The acquisition cost includes all costs directly relating to the acquisition of the asset. If significant parts of an item of property, plant and equipment have different useful lives, then they are recognised as separate items (major components) of property, plant and equipment. The assets acquired in the business combination are valued at fair value at the date of the acquisition. Ordinary maintenance and repair costs are expensed as incurred. The cost of significant renewals of the real estates are capitalized and depreciated over the remaining useful lives of the related assets.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, a major initial investment, such as a new production facility, form part of the cost of that asset. Other borrowing costs are recognized as an expense.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Buildings and structures 10–50 years
- Machinery and equipment 3–25 years
- Other tangible assets 3-10 years

Depreciations are commenced when the asset is ready for use, in such a location and condition that it can be used as the management of the company has intended. Land and water are not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The carrying amounts tangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If indication exists, the recoverable amount is measured. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss in the other operating income or costs.

GOVERNMENT GRANTS

Grants from the government are recognised as reductions of the carrying amount of tangible assets when there is a reasonable assurance that the grant will be received, and the Group will comply with all conditions. Grants are recognised in the consolidated statement of comprehensive income in the form of smaller depreciation over the economic life of the related asset. Research and development grants and grants received as reimbursement for actual costs are recognised into profit during the period in which the right to collect the grant emerge. Such grants are presented in other operating income.

LEASES

Group leases various properties, equipment and cars. Rental contracts are typically made for an indefinite period or fixed period of 3 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and corresponding liability at the date of which leased asset is available for use by group. According to IFRS each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are measured on a present value basis. The measurement includes non-cancellable lease payments, and also payments to be made for optional periods if Group is reasonably certain to exercise the extension option. The lease payments are discounted using interest rate implicit in the lease, if that rate can be determined, or using Group's incremental borrowing rate.

The Group is applying recognition exemptions under IFRS 16 for short-term leases (less than twelve months) and leases of low value assets. The Group has classified, amongst others, laptops and other low value IT equipment as well as low value machinery as low value assets. These are not recognised into balance sheet, but payments are recognised on a straight-line basis as an expense in profit or loss statement.

Lease liability is initially measured at the amount of net present value of following lease payments: a) fixed payments, less any lease incentives receivable, b) variable lease payments that are depending on an index or a rate that originally are based on the index or price level at the commencement date, c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and d) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Right-of-use asset is measured at cost comprising following: a) the amount of the initial measurement of lease liability, b) any lease payments made at or before the commencement date c) any initial direct costs and d) restoration costs.

Contingent rents

Some of property leases contain variable payment terms that are linked to sales generated from the store or other variable element, like amount of rented pallet place in warehouse. For some individual stores, up to 100 per cent of lease payments are based on variable payment terms or is based on sales with a wide range of sales percentages applied. Variable payment terms are used for a variety of reasons, including minimising the fixed costs for newly established store or according to other general practice. Changes in conditions regarding variable lease payments are recognised in the profit and loss statement in that period in which the change of the condition in the leasing contract has taken place. Variable lease payments that depends on sales are recognised in profit and loss in the period in which the condition that triggers those payments occurs.

Certain property lease payments are linked to an inflation index. Variable lease payments based on an index are part of the lease liability and are measured initially using the index at the commencement date. Future changes of the index are considered in measurement at the point in time in which lease payments change.

Extension and termination options

Extension and termination options are included in several property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

Critical judgements in determining lease term

Management assess whether group has economic incentive to exercise the extension option or not exercise the termination option. All facts and conditions creating economic incentive for group are considered. The validity of this assessment is reassessed upon the occurrence of either significant event or a significant change in circumstances which affect this estimation.

FINANCIAL ASSETS AND LIABILITIES

A financial asset or liability is recognised when the Group becomes a party to a contract comprehending a financial asset or liability. Financial assets are classified in accordance with IFRS 9 depending on the business model for managing

financial assets and the contractual terms of the cash flows in the following measurement categories: amortized cost, fair value through profit or loss and fair value through other comprehensive income. Financial liabilities are classified either at amortized cost or fair value through profit or loss. Financial assets, including derivatives, are initially recognised at fair value. Financial assets recognized at amortized cost are valued using the effective interest method and other financial assets are valued at their fair value either through profit or loss or through other comprehensive income, based on the classification above. The method for estimating credit losses in relation to trade receivables is described in section "Trade receivables". Financial liabilities, including derivatives, are initially recognised at fair value. Loans recognized at amortized cost are valued using the effective interest method and other financial liabilities are valued at their fair value through profit or loss. Financial assets and liabilities arising from derivatives are valued at fair value at the end of each reporting period, either through profit or loss or through other comprehensive income.

Financial assets and liabilities measured at fair value are presented according to the following fair value measurement hierarchy:

Level 1: Quoted prices in active markets are available for identical assets and liabilities.
Level 2: All inputs with a significant impact on the fair value of an asset or liability are observable in the market, either directly or indirectly.
Level 3: None of the inputs which have significant impact on the fair value of an asset or liability is observable in the market.

Financial assets measured at amortized cost consist of other non-current loan receivables, trade receivables and cash and cash equivalents. Cash and cash equivalents include deposits, which are made to ensure return on liquid funds. Return from deposits consists of interest and repayment of initial principal as the deposit matures. Trade and loan receivables include those items where the business model is to hold the asset to collect the contractual cash flows. Financial assets measured at fair value through profit or loss consist of other non-current and current financial assets, such as interest funds, contingent consideration receivables, shares and other holdings in unlisted entities as well as loans to aforementioned entities. If the fair value cannot be reliably measured these assets can be measured at cost less possible impairment losses. Interest funds have been acquired for trading purposes to secure return on liquid funds. Return is received in addition to interest income also in the form of fair value gains and the investments can be sold or purchased according to the liquidity position of the Group. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire.

Financial liabilities measured at amortized cost include loans from financial institutions, leasing debt, commercial papers, trade payables and loans from third parties that are not financial or pension institutions. Transaction costs are deducted from the principal amount and the difference is expensed using the effective interest method. Financial liabilities measured at fair value through profit or loss consist of contingent consideration liabilities. All transaction cost and changes to the fair value is recognized through profit or loss. Financial liability is derecognized when the debt is extinguished, i.e. once the related obligation is discharged, cancelled or expired.

Arrangement fees in relation to credit facilities are capitalised as prepayments and expensed over the period of the facility if there is no evidence that it is probable that some or all of the facility will be drawn down. Other costs in relation to borrowings are expensed when incurred.

Derivative instruments are measured at fair value defined as the amount at which knowledgeable market participants would be willing to exchange the instruments at the measurement date. The fair values of currency forward agreements are calculated by comparing agreed forward rates to market forward rates on the reporting date. The fair values of currency options include the time value of the instrument, and the difference between the market rate at the closing date and the strike price of the option. The fair values of commodity futures are calculated by comparing the agreed futures prices to futures prices prevailing on the market on the closing date. Changes in the fair value of derivatives relating to financing transactions are recognised in the financial items in the income statement.

Hedge accounting is applied on foreign exchange and commodity hedging transactions entered into in relation to certain highly probable raw material purchases and certain highly probable sales transactions denominated in foreign

currencies, as well as purchases of electricity. These are designated as cash flow hedge relationships. Hedging relationship is recognised and documented, when an economic relationship exists between the hedging instrument and the hedged item, and the central terms of the hedging instrument are similar to central terms of the hedged item. The effectiveness of the hedge is evaluated as the hedging relationship is recognised, and forward-looking effectiveness testing is carried out at each reporting date. To the extent these relationships are effective, the change in fair value of the hedging relationship is recognised in the hedging reserve in equity. The relevant fair value reserve is transferred to the initial cost of the related raw material purchase or income from the related sale when it is recognised. When hedging instruments in relation to raw material purchases expire, the fair value portion recognised in equity is transferred to inventories. The hedge result is allocated to raw material, work in progress and finished goods in proportion to how much relevant raw material is included in them at the balance sheet date. The result of electricity derivatives, entered into to hedge electricity expenses, are included in electricity expenses in other operating expenses. The fair value portion of hedges in relation to sales that have been recognised in equity are allocated to net sales when the sale that they relate to occurs. The ineffective portion is recognised immediately in the income statement, if the fair value change of the component designated as hedging instrument exceeds the fair value change of the hedged item in absolute terms.

Fazer designates the spot component of foreign currency forward contracts as hedging instrument in cash flow hedging relationships. The forward element of foreign currency forward contracts is recognised as cost or income in sales or raw material purchases without deferral. Gains and losses from raw material derivatives are recognised in the material costs, inventory values and fair value reserve. The Group does not have embedded derivatives.

TRADE RECEIVABLES

Trade receivables are recognised in the amounts of initial sale. For accounting the expected credit losses, the group applies the simplified approach in IFRS 9, according to which all trade receivables are deducted by the estimated and expected credit loss for the whole credit period. The expected credit losses are based on assumptions related to probability of neglecting the payments and degree of the losses. In making these assumptions judgement is used. The judgement is based on historical information, market conditions as well as anticipated assumptions made at the end of each period. Credit losses are recognised as expenses in other operating expenses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities in the statement of financial position.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the FIFO-method (first-in, first-out) or, alternatively, weighted average cost or standard cost method where the result of it approximates the result of the FIFO-method. The cost of finished goods and work in progress comprises raw materials, direct labour, depreciation, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

PROVISIONS AND CONTINGENT LIABILITES

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are measured at the present value of the required payments to cover 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 included in the obligation at the time of observation. If it is possible to receive reimbursement for part of the obligation from a third party, the reimbursement is stated as a separate asset when receipt is practically certain.

A provision for business restructuring is recognized only when a detailed and formal plan has been established, when there is a valid expectation that such a plan will be carried out and the plan has been communicated.

A contingent liability is a possible obligation, incurred as a result of earlier events, whose existence is confirmed only when an uncertain event outside the control of the Group is realised. An existing liability that is not likely to require the fulfilment of the payment obligation or whose amount cannot be reliably measured is also considered a contingent liability.

TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

In defined contribution plans, the Group makes fixed payments to a separate entity. The Group has no legal obligation to make additional payments if the recipient of the payments is unable to pay for the retirement benefits in question. All arrangements that do not meet these conditions are defined benefit pension plans. Payments made to defined contribution pension plans are recognized as a result of the period during which they are charged.

Defined benefit plans

The present value of the obligation of defined benefit plans is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined using interest rates of high-quality corporate bonds that have maturity terms approximating to the terms of the related defined benefit obligation. The liability or asset recognized 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.

Remeasurements, including actuarial gains and losses, are recognized to equity through other comprehensive income when incurred and are not reclassified to profit or loss in subsequent periods. Past service costs are recognized in income statement at the earlier of when the plan amendment or curtailment occurs or when related restructuring costs or termination benefits are recognized. For defined benefit plans the Group reports the current and past service cost as well as gains and losses on non-routine settlements in personnel expenses. The net interest income or expense is recognized in financial income or expenses. The net interest is determined by applying the discount rate used to determine present value of obligation to the net defined benefit liability or asset at the beginning of the annual period. In addition, the changes during the period caused by contributions and benefit payments are taken into account.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are expensed 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. If benefits are not expected to be settled within 12 months of the end of the reporting period, then they are discounted.

OPERATING PROFIT

According to the definition used by the Group, Operating profit is the net amount arising from adding other operating income and share of results in associates to net sales, deducting cost of sales corrected for changes in inventories, deducting costs related to employee benefits, depreciation

OPERATING PROFIT

According to the definition used by the Group, Operating profit is the net amount arising from adding other operating income and share of results in associates to net sales, deducting cost of sales corrected for changes in inventories, deducting costs related to employee benefits, depreciation and possible impairments as well as other operating expenses. Foreign exchange differences and changes in the fair value of derivative financial instruments are included in operating profit in case they originate from operative business items; otherwise they are booked in financial income and expenses.

DIVIDENDS

Dividends are recognised as liabilities after the Annual General Meeting of Shareholders approves the amount of dividends.

2.4 Adoption of new and amended standards

CHANGES IN ACCOUNTING STANDARDS

Fazer has not adopted any such standards or interpretations published by the International Accounting Standards Board during the reporting period that would have had a significant effect on the Fazer Group's result, financial position or the presentation of the financial statements.

The Group has early adopted IFRS 16 when compiling financial statements according to IFRS for the first time for the period ending December 31, 2017.

NEW AND FORTCOMING STANDARDS AND INTERPRETATIONS

New and amended standards or interpretations that were issued by the balance sheet date and effective from 1 January 2020 or later are not expected to have a material impact on Fazer Group's result, financial position or the presentation of the financial statements.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Financial statements in accordance with the IFRS requires management to make judgements, estimates and assumptions that affect the measurement of the reported assets and liabilities and other information, such as contingent assets and liabilities and the recognition of income and expenses in the statement of income. Although these estimates and assumptions are based on the management's best knowledge of current events and actions, actual results may differ from the estimates.

DETERMINATION OF FAIR VALUE OF ASSETS ACQUIRED AS PART OF BUSINESS COMBINATIONS AND CONTINGENT CONSIDERATION

Classification or determinations related to business combinations are made based on the terms of contract, economic conditions, the operating or accounting principles applied by Group and other pertinent circumstances prevailing at the time of acquisitions. Where possible, the fair values of assets and liabilities are determined by reference to market values insofar as they are available. If no market values are available, the measurement is based on the estimated capacity of the assets to generate income and its future use in Fazer Group's operating activities. The measurement of intangible assets, in particular, is based on the present value of future cash flows and requires that the management make estimates regarding future cash flows, discount rate and the use of assets.

The acquisition-date fair value of contingent consideration is recognised as part of the consideration transferred. When contingent consideration is classified as a financial liability, it is recognised at fair value at the end of the reporting period and the change in fair value is recognised in profit and loss.

The management believes that the estimates and assumptions made are accurate enough for the determination of fair value. Additionally, the Group monitors any indications of any impairment of property, plant and equipment and intangible assets.

DEFINED BENEFIT OBLIGATIONS – ACTUARIAL ASSUMPTIONS

The present value of pension obligations is subject to the actuarial assumptions used by actuaries to calculate these obligations. Several actuarial assumptions are used in calculating the expenses and obligations related to the plans. These factors include, among others, assumptions about the discount rate, changes in future compensation and employee service life. Changes in these assumptions can significantly impact the amounts of pension obligation and future pension expenses. Retirement benefit obligations are disclosed in Note 18.

RECOGNITION AND MEASUREMENT OF PROVISIONS

The most significant provisions in the statement of financial position relate to leasing/restoration provision. The judgement applied mainly relates to the estimated amounts of costs. The precise amount and timing of these costs could differ from estimates. More details are provided in Note 16.

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

The Group tests goodwill and other intangible assets whose useful life is estimated to be indefinite for impairment annually. The parent companies in Group, in turn, test the cost of subsidiary shares. The amounts recoverable from cash-generating unit's operating activities are determined based on value-in-use calculations. In these calculations, forecast cash flows are based on 5-year financial plans approved by the management. In addition, the Group reviews the carrying amounts of its non-financial assets at each reporting date to determine whether there is any indication of impairment. If indication exists, the recoverable amount is measured. Indications of potential need for impairment may be for example changes in market conditions and sales prices, decisions on significant restructurings or change in profitability. These calculations require the use of judgement. More details are provided in Note 10.

DEFERRED TAXES

Uncertainty exists related to the availability of future taxable profit against which tax losses carried forward can be used. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits. More details are provided in Note 7.

LEASES

In Group's lease contracts there is until further notice contracts and contracts which include option rights. Management judgement is required to determine the amount of these lease liabilities. Rental contracts, which are shorter than 6 months, are classified as operating leases.

4. Revenue

Segment information

Fazer does not present segment information or apply IFRS 8 Operating Segments, since its equity or debt instruments are not traded in a public market.

Disaggregation of revenue from contracts with customers

Fazer manufactures and sells a range of bakery, biscuit, confectionery and grain products as well as plant-based meals through wholesale and retail market. Fazer is also a provider of cafe- and restaurant-services, and offers different service solutions for it's customers. Revenue from contracts with customers amounted to EUR 1,097 million (EUR 1,029 million) in continuing opearations.

Revenue is recognised when the control of the product or service is transferred to the customer. This determines whether the revenue is recognised over time or at point in time. Revenue from sale of goods are recognized at point in time.

All revenue in continuing operations is recognised at point in time.

Revenue by Fazer businesses

EUR thousand	2019	2018
Fazer Bakery	565 193	552 303
Fazer Confectionery	353 112	333 147
Fazer Lifestyle Foods	158 078	121 809
Fazer Retail	47 076	46 365
Others	3 558	3 353
Internal sales	-30 008	-27 798
Total	**1 097 009**	**1 029 178**

Revenue by country

EUR thousand	2019	2018
Finland	583 296	529 036
Sweden	229 990	226 347
Russia	168 151	171 114
Estonia	21 256	20 132
Latvia	14 899	13 745
Lithuania	13 788	13 610
Denmark	12 339	7 508
Norway	8 690	8 307
Other countries	44 600	39 380
Total	**1 097 009**	**1 029 178**

5. Other operating income and expenses

5.1 Other operating income

EUR thousand	2019	2018
Gain from sales of non-current assets	8 505	376
Rental income	3 246	3 106
Sale of services	9 641	12 875
Others	7 457	4 240
Total	**28 850**	**20 597**

5.2 Materials and services

EUR thousand	2019	2018
Purchases during the period	405 182	372 615
Change in inventory	-3 070	-6 224
External services	4 559	4 104
Total	**406 671**	**370 495**

5.3 Employee benefit expenses

EUR thousand	2019	2018
Wages and salaries	249 617	227 487
Pension costs - defined contribution plans	39 113	34 267
Pension costs - defined benefit plans	4	75
Other employee benefit expenses	964	1 046
Social security costs	26 598	26 612
Total	**316 295**	**289 488**

Personnel on average per Fazer businesses	2019	2018
Fazer Bakery	5 315	5 545
Fazer Confectionery	1 139	1 126
Fazer Lifestyle Foods	339	246
Fazer Retail	438	435
Other	301	294
Total	**7 532**	**7 646**

5.4 Other operating expenses

EUR thousand	2019	2018
Other social expenses	7 815	8 642
Rents	19 765	15 439
Energy	28 626	26 243
Production maintenance expenses	53 989	50 578
IT expenses	18 712	21 406
Travel expenses	8 648	8 143
Freight and other transport expenses	73 306	69 493
Marketing expenses	48 518	36 433
Administrative expenses	32 797	28 537
Loss from sales of non-current assets	703	667
Total	**292 881**	**265 581**

Audit fees	2019	2018
PricewaterhouseCoopers		
Audit	645	603
Tax services	2	10
Other services	35	204
Total	**682**	**817**

6. Financial income and expenses

EUR thousand	2019	2018
Dividend income	-	-
Interest income		
Cash, cash equivalents and other financial assets	255	351
Derivatives	1 273	832
Other interest income	8	68
Exchange rate gains		
Derivatives	1 283	-
Other	-1 009	-
Other financing income	3 044	191
Finance income	**4 853**	**1 442**
Interest expenses		
From leasing liabilities	-551	-460
Net-interest from defined benefit plans	-134	-130
Liabilities to financial institutions	-211	-185
Derivatives	-236	-399
Other interest expenses	-207	-80
Exchange rate losses		
Derivatives	-	-4 548
Other	-	2 828
Fees and expenses related to interest bearing debt	-458	-478
Other financing expense	-525	-338
Finance expense	**-2 322**	**-3 791**
Total finance income and expenses	**2 531**	**-2 349**

Interest income arises from financial assets, foreign exchange transactions and other financing activities. Foreign exchange gains and losses arise from foreign exchange transactions, investments in financial instruments and bank accounts. Other financing income includes any other income related to financing transactions.

Interest expenses arise from foreign exchange transactions, commercial paper funding, and other financing transactions.

Fees and expenses related to financing transactions include fees incurred and paid for the arrangement and availability of funding sources. Other financing expenses include other expenses related to financing transactions.

Financial income and a significant part of financial expenses, with the exception of income and expenses from derivatives, as well as income from financial assets, derives from assets and liabilities measured at amortised cost.

7. Taxes

7.1 Income taxes

EUR thousand	2019	2018
Income taxes, continuing operations		
Current tax on profits for the year	-13 586	-15 918
Adjustments of current taxes for prior periods	1 481	-379
Total income taxes, continuing operations	**-12 105**	**-16 297**
Deferred taxes, continuing operations		
Decrease (-) / increase (+) of deferred tax assets	596	2 931
Decrease (+) / increase (-) of deferred tax liabilities	-1 170	1 467
Total deferred taxes, continuing operations	**-573**	**4 398**
Total income taxes, continouing operations	**-12 679**	**-11 899**
Other comprehensive income		
Taxes related to items in other comprehensive income	10	-11
Total	**10**	**-11**

Reconciliation of effective tax rate, continuing operations

EUR thousand	2019	2018
Profit before tax	51 611	53 513
Parent companie's tax rate	20,0%	20,0%
Tax computed at parent companie's tax rate	-10 322	-10 703
Effect of different tax rates in foreign subsidaries	579	-7
Effect of non-deductible expenses	-738	-1 280
Effect of income not subject to tax	1 264	135
Utilisation of previously unrecognised tax losses carried forward	145	39
Unrecognised taxes on losses carried forward	-4 311	39
Changes in corporate tax rates	-	216
Other adjustments of deferred taxes	-367	-162
Tax for previous financial periods	1481	-379
Other items	-410	204
Taxes in income statement	**-12 679**	**-11 899**
Effective tax rate (%)	**24.6**	**22.2**

7.2 Losses carried forward

	Losses carried forward for which deferred tax has been recognised		Recognised deferred tax assets	
EUR thousand	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Expiry within five years	92	1 058	20	265
Expiry after five years	2 263	-	453	-
No expiry	2 088	2 890	459	636
Total	**4 442**	**3 948**	**932**	**900**

	Losses carried forward for which no deferred tax has been recognised		Unrecognised deferred tax asset	
EUR thousand	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Expiry within five years	51	735	10	147
Expiry after five years	2 221	2 159	679	661
No expiry	21 929	2 134	4 677	449
Total	**24 201**	**5 028**	**5 366**	**1 257**

In discontinued operations losses carried forward amounted to EUR 0.3 (1.0) million and recognised deferred taxes amount to EUR 0.1 (0.2) million. 2018 amounts are included to table above.

7.3 Deferred tax assets and liabilities

EUR thousand	**1 Jan 2019**	**Recognised in income statement**	**Recognised in other comprehensive income**	**Business acquisitions and disposals**	**Transferred to assets held for sale and related liabilities**	**Exchange rate differences**	**31 Dec 2019**
Deferred tax assets							
Intangible assets	7 882	-260	-	0	-151	-	7 471
Tangible assets	1 112	640	-	253	-454	-7	1 544
Financial assets	0	-	5	-	-	-	5
Inventory	282	37	-	-	-1	33	350
Employee benefits	1 248	17	44	-	-179	12	1 142
Provisions	332	-39	-	-	-92	-2	200
Tax losses carried forward	900	-300	-	561	-230	1	932
Other items	1 292	501	-	-	106	129	2 028
Total	**13 048**	**596**	**49**	**813**	**-1 001**	**166**	**13 671**
Effect of netting deferred tax assets and liabilities	-11 942						-13 151
Total	**1 106**						**520**
Deferred tax liabilities							
Intangible assets	6 526	-320	-	457	-383	-83	6 197
Tangible assets	18 443	1 339	-	2 541	-121	275	22 476
Financial assets	-4	0	42	-	-	-	38
Inventory	1 648	113	-	-	-	6	1 768
Employee benefits	63	74	3	-	-	-1	140
Provisions	0	-	-	-	-	-	0
Other items	1 882	-37	-	119	-1 536	-26	402
Total	**28 558**	**1 170**	**46**	**3 116**	**-2 040**	**172**	**31 021**
Effect of netting deferred tax assets and liabilities	-11 942						-13 151
Total	**16 616**						**17 870**

EUR thousand	1 Jan 2018	Recognised in income statement	Recognised in other comprehensive income	Business acquisitions and disposals	Transferred to result for discontinued operations	Exchange rate differences	31 Dec 2018
Deferred tax assets							
Intangible assets	2 006	5 896	-	-	-19	-1	7 882
Tangible assets	1 199	-94	-	-	26	-19	1 112
Financial assets	91	-36	-54	-	0	-1	0
Inventory	357	-40	-	-	0	-35	282
Employee benefits	1 371	-80	37	-	-24	-56	1 248
Provisions	77	172	-	-	84	-1	332
Tax losses carried forward	5 121	-4 303	-	-	230	-148	900
Other items	-8	1 416	-	-	5	-121	1 292
Total	**10 214**	**2 931**	**-17**	**0**	**302**	**-382**	**13 048**
Effect of netting deferred tax assets and liabilities	-9 169						-11 942
Total	**1 046**						**1 106**
Deferred tax liabilities							
Intangible assets	6 478	121	-	-	128	-201	6 526
Tangible assets	20 107	-1 346	-	-	17	-335	18 443
Financial assets	65	-65	-4	-	-	-	-4
Inventory	1 958	-301	-	-	-	-10	1 648
Employee benefits	59	9	-3	-	-	-2	63
Provisions	-	0	-	-	-	-	0
Other items	2 001	115	-	-	-112	-122	1 882
Total	**30 669**	**-1 467**	**-7**	**0**	**33**	**-670**	**28 558**
Effect of netting deferred tax assets and liabilities	-9 169						-11 942
Total	**21 500**						**16 616**

8. Property, plant and equipment

EUR thousand	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost at 1 Jan 2018	**41 839**	**360 096**	**724 982**	**40 163**	**31 530**	**1 198 610**
Additions	93	22 140	26 558	1 412	22 238	72 441
Disposals	-111	-8 804	-12 082	-1 219	-	-22 216
Reclassifications	-	3 765	16 787	-1 371	-24 176	-4 996
Exchange rate differences	-351	-6 699	-16 126	-314	-1 495	-24 985
Cost at 31 Dec 2018	**41 470**	**370 498**	**740 119**	**38 671**	**28 097**	**1 218 854**
Business acquisitions	111	11 159	29 736	9	-	41 014
Disposal of businesses	-231	-4 262	-37	-27	-	-4 556
Transferred to assets held for sale	-574	-53 058	-50 247	-25 424	-201	-129 504
Additions	-	17 527	27 239	1 655	32 305	78 727
Disposals	-2	-6 650	-16 436	-1 204	-384	-24 675
Reclassifications	0	6 747	18 267	485	-25 790	-291
Exchange rate differences	279	2 299	6 877	12	1 068	10 534
Cost at 31 Dec 2019	**41 053**	**344 260**	**755 518**	**14 176**	**35 095**	**1 190 101**
Accumulated depreciation and impairment losses at 1 Jan 2018	**-7 527**	**-185 125**	**-543 334**	**-30 787**	**0**	**-766 772**
Depreciations, continuing operations	-19	-18 699	-37 644	-1 321	-	-57 683
Depreciations, discontinued operations	-	-9 720	-5 802	-555	-	-16 077
Impairment losses	-957	-	-1	-7	-46	-1 010
Depreciations on disposals and reclassifications	3	6 414	8 780	1 110	-	16 308
Exchange rate differences	2	2 431	12 596	208	-	15 237
Accumulated depreciation and impairment losses at 31 Dec 2018	**-8 497**	**-204 699**	**-565 405**	**-31 351**	**-46**	**-809 998**
Business acquisitions	-	-	-	-	-	0
Disposal of businesses	-	1 783	37	24	-	1 844
Transferred to assets held for sale	-	21 749	34 411	23 275	-	79 434
Depreciations, continuing operations	-20	-17 465	-38 513	-1 232	-	-57 230
Depreciations, discontinued operations	-	-5 055	-2 462	-264	-	-7 780
Impairment losses	1 077	-	-698	-26	-	353
Depreciations on disposals and reclassifications	-	5 800	14 237	1 125	-	21 162
Exchange rate differences	-11	-735	-5 273	-17	-	-6 037
Accumulated depreciation and impairment losses at 31 Dec 2019	**-7 451**	**-198 622**	**-563 666**	**-8 466**	**-46**	**-778 251**
Carrying amount						
31 December 2019	33 602	145 638	191 851	5 710	35 048	411 850
31 December 2018	32 972	165 799	174 714	7 320	28 051	408 855

Right of use assets included in tangible assets

EUR thousand	Land and water	Buildings and structures	Machinery and equipment	Total
Cost at 1 Jan 2018	**308**	**101 844**	**26 120**	**128 271**
Additions	93	20 272	6 418	26 784
Disposals	-94	-6 493	-4 332	-10 919
Exchange rate differences	-8	-1 790	-294	-2 092
Cost at 31 Dec 2018	**298**	**113 833**	**27 912**	**142 043**
Business acquisitions	-	2 421	-	2 421
Transferred to assets held for sale	-	-49 455	-4 312	-53 767
Additions	-	16 168	6 287	22 455
Disposals	-	-6 138	-3 734	-9 872
Exchange rate differences	16	-788	-80	-853
Cost at 31 Dec 2019	**314**	**76 040**	**26 074**	**102 427**
Accumulated depreciation at 1 Jan 2018	**-35**	**-37 922**	**-11 315**	**-49 271**
Depreciations, continuing operations	-19	-10 707	-3 282	-14 007
Depreciations, discontinued operations	-	-9 573	-1 998	-11 572
Depreciations on disposals and reclassifications	3	4 482	1 785	6 269
Exchange rate differences	2	481	91	574
Accumulated depreciation at 31 Dec 2018	**-49**	**-53 239**	**-14 719**	**-68 007**
Business acquisitions	-	-	-	0
Transferred to assets held for sale	-	20 546	1 875	22 421
Depreciations, continuing operations	-20	-9 405	-4 026	-13 450
Depreciations, discontinued operations	-	-4 982	-549	-5 531
Depreciations on disposals and reclassifications	-	5 477	2 394	7 871
Exchange rate differences	-11	302	36	327
Accumulated depreciation at 31 Dec 2019	**-79**	**-41 300**	**-14 989**	**-56 369**
Carrying amount				
31 December 2019	234	34 740	11 084	46 059
31 December 2018	249	60 594	13 193	74 037

9. Intangible assets

EUR thousand	Goodwill	Customer relationships	Trademarks and other immaterial rights	Other capitalised expenditure	Advance payments and work in progress	Total
Cost at 1 Jan 2018	**160 724**	**3 879**	**46 615**	**53 265**	**69**	**264 553**
Additions	138	-	2	3 677	32	3 849
Disposals	-	-	-65	-500	-9	-574
Reclassifications	-	-	14	5 017	-35	4 996
Exchange rate differences	-2 017	-155	-792	-370	-8	-3 342
Cost at 31 Dec 2018	**158 845**	**3 724**	**45 774**	**61 089**	**50**	**269 482**
Business acquisitions	29 553	-	2 285	60	-	31 898
Transferred to assets held for sale	-29 727	-	-9	-6 440	-	-36 176
Additions	-	-	-	1 522	30	1 552
Disposals	-	-	-	-377	-28	-404
Reclassifications	-	-	30	299	-38	291
Exchange rate differences	-57	-68	-300	267	6	-153
Cost at 31 Dec 2019	**158 614**	**3 655**	**47 780**	**56 421**	**19**	**266 490**
Accumulated depreciation and impairment losses at 1 Jan 2018	**-126**	**-758**	**-5 347**	**-46 572**	-	**-52 803**
Depreciations, continuing operations	-	-372	-904	-5 006	-	-6 282
Depreciations, discontinued operations	-	-	-	-273	-	-273
Depreciations on disposals and reclassifications	-	-	63	194	-	257
Exchange rate differences	-	30	29	326	-	385
Accumulated depreciation and impairment losses at 31 Dec 2018	**-126**	**-1 100**	**-6 159**	**-51 331**	-	**-58 716**
Business acquisitions	-	-	-	-	-	0
Transferred to assets held for sale	126	0	9	4 993	-	5 128
Depreciations, continuing operations	-	-361	-946	-3 888	-	-5 195
Depreciations, discontinued operations	-	-	-	-200	-	-200
Depreciations on disposals and reclassifications	-	-	-	366	-	366
Exchange rate differences	-	15	-32	-260	-	-276
Accumulated depreciation and impairment losses at 31 Dec 2019	-	**-1 445**	**-7 128**	**-50 321**	-	**-58 894**
Carrying amount						
31 December 2019	158 614	2 210	40 652	6 100	19	207 596
31 December 2018	158 720	2 624	39 615	9 758	50	210 766

10. Goodwill and intangible assets with indefinite useful lives

The impairment testing of goodwill and trademarks were performed for Fazers cash generating units; Fazer Bakeries, Fazer Confectionery, Fazer Lifestyle Foods and Fazer Retail, according to the current business organization and responsibilities. Based on the conducted impairment testing there was no need to record an impairment for goodwill or trademarks during the current or previous financial period.

	31 December 2019			31 December 2018		
EUR thousand	Goodwill	Trade marks *)	Discount rate (WACC) **)	Goodwill	Trade marks *)	Discount rate (WACC) **)
Fazer Bakery	12 573	-	10.3	12 327	-	10.3
Fazer Confectionery	80 738	18 476	6.9	80 738	18 476	6.7
Fazer Food Services	-	-	-	29 542	-	8.0
Fazer Lifestyle Foods	65 047	17 418	6.8	35 861	17 744	6.3
Fazer Retail	257	-	6.8	252	-	7.3
Total	**158 614**	**35 893**		**158 720**	**36 219**	

* Intangible assets with indefinite useful lives

** Before tax (%)

The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (discounted cash flow method). The planning period for cash flows is five years. The cash flow projections are based on a long-term financial plan which is based on the strategy approved by the management. In defining the long-term plans for each CGU, the management makes use of growth, demand, and price estimates by market research institutions. Furthermore, the estimated sales and profits and the CGU specific long-term plan are used in the calculations. Cash flows after the forecast period have been extrapolated at a constant growth factor of 1%. The discount rate applied to cash flow projections is the weighted average cost of capital (WACC) as defined by Fazer, in which company specific risk premiums are considered. The components of WACC are risk-free long-term government bond rates, market and industry risk premiums, cost of debt and target capital structure.

The recoverable amount of Fazer Food Services CGU was previously valued on a value in use basis. In 2019 Fazer Food Services CGU recoverable amount was estimated based on the fair value less cost of disposal based on the agreed price in the agreement concluded with Compass Group. No information has been included for Fazer Food Services CGU as the recoverable amount was not determined using a discounted cash flow analysis and it is included in discontinued operations.

Sensitivity analysis

For Fazer Bakery, the critical key assumptions are the development of profitability and the discount rate. According to management's estimate, the recoverable amount of Fazer Bakery exceeds the carrying amount, even if the annual EBITDA would fall to 75% of the planned level or even if the discount rate would increase to 16.0%.

For Fazer Confectionery, the critical key assumptions are the development of profitability and the discount rate. According to management's estimate, the recoverable amount of Fazer Confectionery exceeds the carrying amount, even if the annual EBITDA would fall to 52% of the planned level or even if the discount rate would increase to 21.0%.

For Fazer Lifestyle Foods, the critical key assumptions are the growth and development of profitability, and the discount rate. According to management's estimate, the recoverable amount of Fazer Lifestyle Foods exceeds the carrying amount, even if the annual EBITDA would fall to 63% of the planned level or even if the discount rate would increase to 12.7%. There is significant future growth and profitability expectations for the business area. Management continuously monitors development of the business and risk of impairment.

These sensitivity estimates exclude simultaneous changes in other variables.

11. Financial assets and liabilities

11.1 Financial assets and liabilities by categories

Fair values of financial assets and liabilities by measurement category

	31 December 2019				31 December 2018			
EUR thousand	Carrying amount	Fair value through profit or loss	Fair value trough OCI	Amortised cost	Carrying amount	Fair value through profit or loss	Fair value trough OCI	Amortised cost
Assets								
Other non-current financial assets	3 110	3 110	-	-	3 116	3 116	-	-
Other non-current receivables	5 155	-	-	5 155	1 958	-	-	1 958
Trade receivables	120 936	-	-	120 936	166 252	-	-	166 252
Derivative instruments	1 113	506	607	-	280	205	75	-
Other current financial assets	2 000	2 000	-	-	-	-	-	-
Cash and cash equivalents	40 554	-	-	40 554	39 326	-	-	39 326
Liabilities								
Leasing liabilities, non-current	33 145	-	-	33 145	51 725	-	-	51 725
Other non-current liabilities	5 722	2 717	-	3 005	5 236	5 236	-	-
Leasing liabilities, current	12 741	-	-	12 741	21 289	-	-	21 289
Commercial paper	109 485	-	-	109 485	48 494	-	-	48 494
Other current interestbearing liabilities	12 207	-	-	12 207	12 852	-	-	12 852
Trade payables	87 891	-	-	87 891	112 470	-	-	112 470
Derivative instruments	490	160	330	-	81	51	31	-

The fair value of financial assets and liabilities equals their carrying amounts.

Fazer does not presently have a legally enforceable right of set-off of financial derivative assets and liabilities, and thus these assets and liabilities have not been set off in the balance sheet. The company has entered into ISDA and corresponding local agreements regulating the offsetting of financial derivative assets and liabilities in specified cases. In case of such offsetting by each counterparty to the derivative instruments, the amount of assets and liabilities after offsetting would equal EUR 715 (199) thousand and EUR 92 (0) thousand, respectively.

Fair value hierarchy in the statement of financial position

	31 December 2019			31 December 2018		
EUR thousand	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at FVOCI						
Hedge accounted derivatives	-	607	-	-	75	-
Assets measured at FVPL						
Other non-current financial assets	-	-	3 110	-	-	3 116
Other current financial assets	-	-	2 000	-	-	-
Derivatives, non-qualifying	-	506	-	-	205	-
Liabilities measured at FVOCI						
Hedge accounted derivatives	-	330	-	-	31	-
Liabilities measured at FVPL						
Derivatives, non-qualifying	-	160	-	-	51	-
Other non-current liabilities	-	-	2 717	-	-	5 236

Financial assets and liabilities measured at fair value are classified in accordance with the following fair value hierarchy:

Level 1: Quoted prices in active markets are available for identical assets and liabilities

Level 2: All inputs with a significant impact on the fair value of an asset or liability are observable in the market, either directly or indirectly

Level 3: None of the inputs which have significant impact on the fair value of an asset or liability is observable in the market

11.2 Hedging activities and derivatives

Hedging gains and losses in operating profit

EUR thousand	2019	2018
Cash flow hedge accounted		
Currency hedges	587	212
Non-qualifying hedges		
Commodity hedges	10	52
Total	**597**	**264**
Revenue		
Currency derivatives	54	230
Purchases		
Currency derivatives	533	-18
Commodity derivatives	10	52
Total	**597**	**264**

Fair values of derivative instruments

	31 December 2019			31 December 2018		
EUR thousand	**Pos.**	**Neg.**	**Net**	**Pos.**	**Neg.**	**Net**
Cashflow hedge accounted currency derivatives	450	-68	382	75	-31	44
Cashflow hedge accounted commodity derivatives	157	-262	-105	-	-	-
Non qualifying currency derivatives	401	-64	337	159	-44	115
Non-qualifying commodity derivatives	105	-96	9	47	-6	40
Total	**1 113**	**-490**	**623**	**280**	**-81**	**199**

Nominal values of derivative financial instruments

EUR thousand	**31 December 2019**	**31 December 2018**
Currency forward contracts	156 927	98 149
Currency options	-	9 000
Commodity futures	12 019	1 248
Commodity options	4 125	-

Derivatives maturity repayments

	31 December 2019		31 December 2018	
EUR thousand	**2020**	**2021**	**2019**	**2020**
Gross settlement				
Currency derivatives, cashflow hedges				
Inflow	20 850	-	16 665	-
Outflow	20 305	-	16 500	-
Currency derivatives, non-qualifying				
Inflow	137 060	-	81 761	-
Outflow	136 616	-	81 651	-
Commodity derivatives, cashflow hedges				
Inflow	405	-	-	-
Outflow	5 561	5 647	1 204	-
Commodity derivatives, non-qualifying				
Inflow	2 063	-	555	-
Outflow	2 469	-	692	-
Net settlement				
Commodity derivatives, cashflow hedges				
Inflow	97	60	82	-
Outflow	142	120	-	-
Commodity derivatives, non-qualifying				
Inflow	105	-	47	-
Outflow	96	-	6	-

The presented amounts are undiscounted cashflows based on agreements. The effect of discounting on the cashflows is minor. The figures concerning commodity derivatives in the gross settlement table are nominal values of the agreements. The cocoa and wheat derivatives are net settled, and the amount of the net cashflow is confirmed when the agreements are closed. The electricity derivatives are gross settled and result in delivery of electricity, or net settled at maturity of the agreements.

11.3 Financial risk management

The Group is exposed to various financial risks such as foreign exchange risks, commodity risks, interest rate risks, liquidity and refinancing risks, and counterparty risks. The Treasury Policy (Policy) approved by the Board of Directors defines the objectives and principles within which the financial risks are to be managed in the Group. The financial risk management is centralised to the Group Treasury in the parent company. The Group Treasury functions as the internal bank for the Group, offering financial services to the Group companies. The Group Commodity Risk Management Policy, approved by the Board of Directors, governs the commodity specific risk management policies. These policies more specifically define the principles for each of the most central commodities. The Group aims to operate with low risk in all financing activities. All transactions in financial derivative instruments are undertaken to manage risks and financial costs arising from underlying business or financing activities.

Foreign exchange risk – transaction risk

The Group is exposed to fluctuations in various currencies. Revenue and costs arise in the Group's sales currencies - DKK, EUR, NOK, RUB, SEK and USD. In addition to this cocoa purchases are denominated in GBP and purchases of nuts are denominated in USD. According to the Policy the open currency position, calculated for subsequent 12 months, exceeding the equivalent of EUR 2 million in any foreign currency needs to be hedged to a minimum of 30 per cent, unless economic circumstances rend appropriate hedging transactions unfeasible. In addition to forecasted commercial flows and agreed financial derivatives, balance sheet items denominated in foreign currency form the total foreign currency position.

The below table presents the operative currency exposure at the end of the financial period, including the agreed hedging transactions. The net trade receivable and payable exposures include both external and intercompany transactions in foreign currencies.

Foreign currency exposure, 31 December 2019

EUR thousand	GBP	NOK	RUB	SEK	USD
Net trade receivables and payables	-1 878	75	543	34	-53
Bank accounts	-1 189	-2 333	50	-57 870	-2 630
Loans and deposits	-	-	-16 152	12 017	1 246
Foreign exchange hedges	18 542	4 069	14 866	91 946	3 107
Operative exposure, net of hedges	**15 475**	**1 811**	**-693**	**46 217**	**1 670**

Foreign currency exposure, 31 December 2018

EUR thousand	GBP	NOK	RUB	SEK	USD
Net trade receivables and payables	-1 862	442	775	5 909	-178
Bank accounts	3	968	45	-85 880	46
Loans and deposits	-	-	-7 966	25 415	-
Foreign exchange hedges	21 288	-	9 659	50 881	2 057
Operative exposure, net of hedges	**19 429**	**1 410**	**2 513**	**-3 675**	**1 925**

The above position does not include forecast cashflows. A 10% adverse change in the foreign exchange rates of GBP, NOK, RUB, SEK and USD would result in a loss of EUR 1.4 (1.2) million, EUR 0.2 (0.1) million, EUR 0.1 (0.2) million, EUR 4.2 (0.4) million and EUR 0.2 (0.2) million, respectively, in the net result. An adverse change in the foreign exchange rate refers to a weakening of the currency, except in the case of RUB. In the comparison year the adverse change in the foreign exchange rate refers to weakening in the above currencies except SEK. A 10% adverse move in GBP and USD foreign exchange rates would result in EUR 1.2 (0) million decrease in equity.

Maturities of the derivatives under hedge accounting and corresponding underlying position items are equal. There is no hedge inefficiency since value change of discounted spot component of open derivatives is equal to discounted value change of the respective underlying item.

Foreign exchange risk – translation risk

Balance sheets of the subsidiaries denominated in other currencies than euro are translated using the foreign exchange rate of the reporting date. Exchange rate differences arising form this have been recorded in equity. As the investments are of long term nature, the equity in the subsidiaries is usually not hedged.

	31 December 2019					
EUR thousand	**NOK**	**RUB**	**SEK**	**DKK**	**JPY**	**USD**
Equity	30 239	68 373	219 288	31 513	-2 204	79

	31 December 2018					
EUR thousand	**NOK**	**RUB**	**SEK**	**DKK**	**JPY**	**USD**
Equity	28 635	54 063	212 451	27 902	-2 102	87

The table below shows the estimated impact on consolidated equity of 10% strengthening of the foreign currencies against euro, assuming hedging transactions have not been entered into. A 10% weakening of the foreign currencies would have approximately equal opposite effect.

	31 December 2019					
EUR thousand	**NOK**	**RUB**	**SEK**	**DKK**	**JPY**	**USD**
Change in equity	3 360	7 597	24 365	3 501	-245	9

	31 December 2018					
EUR thousand	**NOK**	**RUB**	**SEK**	**DKK**	**JPY**	**USD**
Change in equity	3 182	6 007	23 606	3 100	-234	10

Commodity risk

The Group is exposed to raw material price risks particularly in grain products and cocoa, as well as to electricity price risks. According to commodity specific risk management policies, minimum 100% of the subsequent 3 months' need of grain and 6 months' need of cocoa is required to be covered. Maximum 100% of the total raw material need during subsequent 12 months for cocoa, after which declining levels of coverage may be applied up to 24 months, and 16 months for grain may be hedged by a combination of stock, physical contracts and financial instruments. The Grain Risk Management Policy applies to grain purchases in Finland; the pricing mechanism differs in other Fazer markets, and the Group hedging principles are not applicable in all countries due to regulatory issues. The Cocoa Risk Management Policy applies to all cocoa purchases. Maximum 100% of the electricity need for the current year may be covered by physical contracts and financial derivatives. Declining levels of coverage are applied until the end of the third calendar year following the current calendar year. The Electricity Risk Management Policy applies for electricity purchases in Finland, Sweden and the Baltic countries.

The Group uses wheat options and futures to hedge grain exposures. At the end of the financial year grain derivatives in the amount of EUR 0.4 (1.2) million were outstanding. A 10% change in the price of wheat derivatives would have an impact of EUR 41 (14) thousand on the operating profit. The

change would not impact equity as the grain derivatives are not hedge accounted. At the end of the financial year cocoa derivatives in the amount of EUR 8.2 (0) million were outstanding, of which part are hedge accounted. A 10% change in the price of cocoa derivatives would have an impact of EUR 0.3 (0) million in the fair value reserve. Gains and losses from wheat derivatives are recorded in material expenses in the income statement, and from cocoa derivatives in material expenses and fair value reserve in equity. The Group hedges against price risks inherent in electricity by entering into derivative agreements. At the end of the financial year electricity derivatives in the amount of EUR 7.6 (1.2) million were outstanding. A 10% change in the price of electricity derivatives would have an impact of EUR 0.8 (0.1) million in the fair value reserve.

Interest rate risk

The Group is exposed to interest rate risk to the extent it holds interest bearing assets and liabilities. According to Treasury Policy, a minimum of 30% of the forecast 12 months' interest bearing net debt shall be hedged, provided that the interest bearing net debt exceeds EUR 30 million. For the purposes of interest rate hedging, the interest-bearing net debt position does not include leasing liabilities or employment benefit liabilities. In 2019 and 2018 the interest-bearing net debt has not exceeded EUR 30 million, and thus no interest rate hedges have been entered into.

At the end of the financial year the Group's interest-bearing net debt, including leasing liability, was EUR 127.0 (95.0) million. Cash and cash equivalents increased from previous year by EUR 1.3 million to EUR 40.6 (39.3) million at the end of 2019. With the exception of the lease liabilities the debt is floating rate based. Assuming stable interest-bearing net debt position, one percentage point parallel upward shift in interest rates level would cause a EUR 0.8 million increase in the Group's interest expense. The calculation reflects the fact that above interest-bearing net debt consists partly of fixed rate debt.

Liquidity and refinancing risk

Liquidity risk is minimised by ensuring a liquidity reserve that covers the operative day-to-day liquidity needs, needs that arise due to unexpected weakening of the cashflow, and needs that are created due to strategic actions such as acquisitions. The management monitors the cashflow development of the Group by compiling short and long term cash forecasts covering periods up to 18 months. At the end of the financial year the liquidity reserve consisted of an unused committed multicurrency revolving credit facility in the amount of EUR 140 (140) million, EUR 40 million loan facility with European Investment Bank, short term money market investments in the amount of EUR 13.5 (12.4) million and of cash and bank in the amount EUR 27.1 (26.9) million. The final maturity date of the multicurrency revolving credit facility is in December 2021. The loan facility with EIB matures at the latest in May 2029. In Russia, OOO Fazer holds an account overdraft limit in the amount of RUB 350 (298) million. The limit is renewable on a yearly basis. The Group also has bilateral Commercial Paper (CP) programs in place with several Nordic banks. The CP programs are available until further. Fazer have complied with the financial covenants in its loan agreements during 2019 as well as 2018, and management expects this situation to continue.

The maturities of the liabilities are presented in the table below. The interest rates applied on the loans, with the exception of leasing liabilities, are variable. The liabilities are mainly denominated in EUR; of leasing liabilities EUR 29.2 (34.9) million equivalent is denominated in EUR, EUR 16.1 (31.8) million in SEK, EUR 0.1 (4.7) million in NOK, EUR 0.2 (1.5) million in DKK and EUR 0.3 (0.1) million in RUB. As per end of 2019 the entire multicurrency revolving credit facility of EUR 140 (140) million, as well as the EUR 40 million loan facility from EIB, were unutilised. The facility is used as back up facility for general corporate purposes. The interest margin on the facility depends on the utilisation level and certain financial ratios of the Group. The EIB loan will be used to finance the xylitol plant investment in Lahti as well as reseach and development in the Group. The loan margin is fixed.

Contractual maturity repayments on financial liabilities, 31 December 2019

EUR thousand	< 1 year	1-5 years	5-10 years	> 10 years
Commercial paper	109 500	-	-	-
Leasing liabilities	10 121	32 051	5 112	130
Accounts payable	87 891	-	-	-
Derivatives - gross outflow	164 951	5 647	-	-
Derivatives - gross inflow	-160 378	-	-	-
Other	12 309	3 000	-	-
	224 394	**40 698**	**5 112**	**130**

Contractual maturity repayments on financial liabilities, 31 December 2018

EUR thousand	< 1 year	1-5 years	5-10 years	> 10 years
Commercial paper	48 500	-	-	-
Leasing liabilities	21 289	45 027	6 252	446
Accounts payable	112 470	-	-	-
Derivatives - gross outflow	100 047	-	-	-
Derivatives - gross inflow	-98 981	-	-	-
Other	12 973	6 000	-	-
	196 298	**51 027**	**6 252**	**446**

Financial transactions counterparty credit risk

The Treasury Policy states that counterparties to financial transactions must maintain creditworthiness that corresponds to investment grade credit rating. The creditworthiness may also be estimated by some other external party, sufficiently familiar with rating methodologies, than a rating agency. Also concerning financial investments such as interest rate funds it is required that the average credit rating of at least 50% the investment portfolio corresponds to investment grade. At most 50% of the investment portfolio may carry a risk corresponding to at least BB/Ba2 rating. Financial derivatives are entered into with a number of creditworthy financial institutions, thus reducing concentration of risk towards any single counterparty.

11.4 Reconciliation of financial liabilities

	Current		Non-current		
EUR thousand	Leasing liabilities	Interest-bearing liabilities	Leasing liabilities	Interest-bearing liabilities	Total
1 January 2019	**21 289**	**61 346**	**51 726**	**0**	**134 361**
Proceeds of debt	-	73 196	22 455	-	95 651
Repayment of debt	-25 295	-34 163	-	-	-59 458
Business acquisitions	555	21 311	1 866	-	23 732
Transfer to liabilities related to asset held for sale	-9 900	-	-15 231	-	-25 131
Transfer between non-current and current	26 618	-	-26 618	-	0
Exchange rate differences	-201	-	-402	-	-603
Other non-cash movements	-325	-	-650	-	-975
31 December 2019	**12 741**	**121 690**	**33 145**	**0**	**167 577**

	Current		Non-current		
EUR thousand	Leasing liabilities	Interest-bearing liabilities	Leasing liabilities	Interest-bearing liabilities	Total
1 January 2018	**23 081**	**63 379**	**54 658**	**0**	**141 118**
Proceeds of debt	0	18 152	26 794	-	44 946
Repayment of debt	-24 624	-20 185	-	-	-44 809
Transfer between non-current and current	25 441	-	-25 441	-	-
Exchange rate differences	-448	-	-1 009	-	-1 457
Other non-cash movements	-2 161	-	-3 276	-	-5 437
31 December 2018	**21 289**	**61 346**	**51 726**	**0**	**134 361**

11.5 Capital management

The Fazer Group aims to manage its capital in a way that supports the profitable growth of business and secures liquidity and capitalization of the Group. The target is to maintain a capital structure that contributes to the creation of shareholder value. The Group's policy is to keep the equity ratio above 50%.

The Group manages its capital structure and may adjust it in changes in economic conditions and requirements of strategy implementation. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new equity. The development of the capital structure is monitored by equity ratio, by gearing ratio and by comparing interest-bearing net debt to EBITDA, which are also the key covenants in the Group's loan arrangement. The Group is not subject to externally imposed capital requirements other than the financial covenants set by the banks. The Group includes within interest-bearing net debt: interest bearing liabilities and borrowings, less cash and short-term deposits and financial assets excluding discontinued operations.

EUR thousand	31 Dec 2019	31 Dec 2018
Interest-bearing net debt	127 024	95 035
Total equity	563 686	544 361
Net debt to equity ratio	22.5%	17.5%

12. Inventories

EUR thousand	31 Dec 2019	31 Dec 2018
Materials and supplies	50 816	59 498
Work in progress	3 721	3 555
Finished products	31 924	28 708
Total	**86 462**	**91 761**

13. Trade and other non interest-bearing receivables

EUR thousand	31 Dec 2019	31 Dec 2018
Non interest-bearing receivables		
Trade receivables	120 936	166 189
Other receivables	7 454	13 786
Receivables from associated companies	-	63
Advance payments	1 170	2 009
Accruals	10 148	16 820
Total	**139 708**	**198 867**
Accruals		
Derivative instuments	1 081	235
Other accruals	9 067	16 584
Total	**10 148**	**16 820**

Trade receivables

31 December 2019

EUR thousand	Undue	Past due up to 90 days	91-180 days past due	Past due over 180 days	Total
Expected loss rate	0.0%	19.2%	88.8%	18.4%	
Gross carrying amount	112 677	9 119	984	1 013	123 793
Loss allowance provision	44	1 752	874	187	2 856
Carrying amount					**120 936**

31 December 2018

EUR thousand	Undue	Past due up to 90 days	91-180 days past due	Past due over 180 days	Total
Expected loss rate	0.1%	0.6%	17.7%	29.8%	
Gross carrying amount	146 865	17 840	1 132	1 131	166 968
Loss allowance provision	79	99	200	337	715
Carrying amount					**166 253**

Reconciliation of loss allowance provision

EUR thousand	31 Dec 2019	31 Dec 2018
Loss allowance as at 1 January	**715**	**1 295**
Increase in provision recognised in profit or loss in other expenses during the period	2 763	-142
Receivables written off during the year as uncollectible	-454	-438
Transferred to assets held for sale	-168	-
Loss allowance as at 31 December	**2 856**	**715**

The gross carrying amount of trade receivables, reflecting the maximum exposure to credit risk, is EUR 123.8 (167.0) million. In 2019, the loss allowance provision is affected by the Russian retail chain that became insolvent at the end of year.

The liabilities recognised by Fazer Group in relation to contracts with customers relate to variable contract components such as volume discounts and bonuses. These liabilities amounts to EUR 10.8 (10.6) milloin. No contract assets have been recognised in the financial statements of 2019 or 2018.

14. Cash and cash equivalents

EUR thousand	31 Dec 2019	31 Dec 2018
Cash and bank	27 085	26 922
Short-term deposits	13 469	12 404
Total	**40 554**	**39 326**

15. Issued capital and equity reserves

Share capital and shares

	Number of shares			
EUR / numbers thousand	Preference shares	Ordinary shares	Total	Share capital
31 December 2018	3 959	2 365	6 324	126 479
31 December 2019	**3 959**	**2 365**	**6 324**	**126 479**
Number of votes	**3 959**	**23 652**	**27 611**	

At the end of the period, the share capital was EUR 126,479 thousand and the total number of parent companies' shares was 6,323,963 of which 3,958,763, or 62.6%, were preference shares and 2,365,200 or 37.4%, were ordinary shares. All issued shares have been fully paid. The maximum number of preference shares is 14,620,320 and the maximum of ordinary shares is 9,460,800, so that the total number of the shares is 24,081,120 at maximum. Each preference shares carries one vote and each ordinary shares carries ten (10) votes. The total votes attached to all shares was 27,610,763. Preference shares carry a preferential right to dividends, amounting to at least 6% of the share's nominal amount, ahead of ordinary shares in connection to the yearly distribution of the dividends.

Dividends

After the closing date, the Board of Directors has proposed that EUR 9.10 per share be distributed as dividends.

Translation differences

Translating foreign subsidiaries' financial statements to the presentation currency of the consolidated financial statements results in translation differences. In the balance sheet translation differences are included in retained earnings.

Hedge reserve

This reserve comprises the cumulative net change in the fair value of the effective portion of cash flow hedging instruments related to hedged transactions that have not yet occurred. The amounts in the reserve are recycled through revenue, purchases, other operating expenses or inventories when the instruments are settled.

Retained earnings

EUR thousand	31 Dec 2019	31 Dec 2018
Translation differences	-12 900	-15 803
Retained earnings	380 403	374 266
Total	**367 502**	**358 462**

16. Provisions

EUR thousand	Restructuring	Restoration of leased premises	Other	Total
1 Jan 2019	**382**	**1 949**	**299**	**2 630**
Transfer to liabilities related to asset held for sale	-	-19	-	-19
Increase of provisions	176	20	14	210
Released during the period	-270	-93	-40	-403
Reversals of unused provisions	-	-	-91	-91
Exchange rate differences	-6	-34	19	-21
31 Dec 2019	**282**	**1 824**	**200**	**2 306**
Current	282	66	200	548
Non-current	-	1 758	-	1 758

EUR thousand	Restructuring	Restoration of leased premises	Other	Total
1 Jan 2018	**1 154**	**2 010**	**491**	**3 655**
Provision additions	371	50	20	441
Released during the period (-)	-978	-	-165	-1 144
Reversals of unused provisions	-132	-35	-	-167
Exchange rate differences	-32	-76	-48	-157
31 Dec 2018	**382**	**1 949**	**299**	**2 630**
Current	382	-	206	588
Non-current	-	1 949	93	2 042

Provisions

Restructuring provisions relate to plans which are approved and carried out by the management. The main part of the provision consists of employee termination benefits as well as costs in relation to capasity adjustments and restructuring Leasing restoration provisions are made based on leasing contracts, in which there is a obligation to restore the rented premises to their condition prior to the commencement of the lease.

17. Leases

The Groups leasing contracts consist mainly of leases various properties, equipments and cars. Leasing contracts are typically made for an indefinite period or fixed period of 3 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The amount of right to use assets and depreciations in relation to them can be found in note 8 and the corresponding leasing liability are included in the interestbearing liabilities and also specified below. Leasing liabilities not included in the balance sheet can be found in note 20.

Leasing liabilities included in the interestbearing debt

EUR thousand	31 Dec 2019	31 Dec 2018
Current	12 741	21 289
Non-current	33 145	51 725
Total	**45 887**	**73 014**

Depreciations in relation to right to use asset arising from leasing contracts amounted to EUR 13.5 (14.0) million and the are included in depreciation, amortization and impairment in the consolidated profit or loss statement. A more detailed specification of them can be found in note 8. Other impacts that leasing contracts have on the consolidated profit or loss statement can be found in the schedule below.

EUR thousand	2019	2018
Items in financial expenses		
Interest expenses	551	460
Items in other operating expense		
Expense relating to short-term leases	130	189
Expense relating to low-value assets	1 979	2 392
Expense relating to until further notice contracts	1 027	841
Expense relating to variable lease payments	17 720	14 318
Total, included in other operating expenses	**20 857**	**17 740**

Leases not yet commenced, which the Group is committed to, amounted to EUR 23.9 (6.5) million as at 31 December 2019.

If revenue in relation to the variable lease payments would increase by 1% it would increse variable leasing expenses with EUR 0.2 million.

18. Pensions and other post-employment benefit plans

Fazer has defined benefit pension plans in Sweden, Finland, Russia and Norway. The main defined benefit plans at 31 December 2019 in the Group were in Sweden and Finland.

The Swedish defined benefit plan is a ITP 2-plan, which is an unfunded defined benefit plan. The ITP plan benefit formula provides pension benefits as a percentage of salary. Benefits will be reduced proportionally if the expected years of service, within the plan and irrespective of employer, is less than 30 years.

Current ITP 2-plans in Sweden are secured through a pension insurance with Alecta. According to a statement issued by the Swedish Financial Reporting Board, UFR 3, this constitutes a multi-employer defined benefit plan. For the fiscal year 2019, the group did not have access to such information that would enable the group to report its proportionate share of the plan's obligations, plan assets and costs, which meant that it was not possible to report the plan as a defined benefit plan according to IAS19. Consequently, the ITP 2-plan secured through an insurance with Alecta is recorded as a defined contribution plan. In addition to this Fazer has an old ITP 2-plan, which is safeguarded with a creditinsurance with PRI Pensionsgaranti. There are no actives in the plan. Norwegian plan is also closed.

In Finland the plan is a defined benefit final salary plan. The plan is closed for new entrants. The benefits payable to beneficiaries are based on the employee´s service and annual salaries. The employees do not contribute towards this plan and the full cost of providing these benefits are met by the company.

Total costs recognized in the income statement

EUR thousand	2019	2018
Current service cost	145	76
Settlements	-141	-
Interest cost	114	114
Total	**118**	**190**

Employee benefit assets and liabilities recognised in the balance sheet

EUR thousand	31 Dec 2019	31 Dec 2018
Present value of funded obligations	1 872	2 995
Fair value of plan assets	-1 890	-2 848
Funded status	-18	147
Present value of unfunded obligations	4 211	4 035
Net defined benefit liability (+) / asset (-)	**4 193**	**4 182**
Total defined benefit liability in the balance sheet	4 193	4 182
Total defined benefit liability in the balance sheet	**4 193**	**4 182**

Present value of obligations and fair value of plan assets

EUR thousand	2019 Present value of obligation	2019 Fair value of plan assets	2019 Net benefit liability/ (asset)	2018 Present value of obligation	2018 Fair value of plan assets	2018 Net benefit liability/ (asset)
Carrying value, at 1 January	**7 030**	**-2 848**	**4 182**	**7 490**	**-3 124**	**4 366**
Transfer to liabilities related to assets for sale	-831	795	-37	31	-10	21
Current service cost	4	0	4	76	0	76
Interest expence (+) income (-)	144	-30	114	139	-25	115
Total recognized in the income statement	148	-30	118	215	-25	190
Actuarial gain and loss on obligations arising from changes in financial assumptions	538	-94	444	82	-	82
Actuarial gain and loss on obligations arising from experience adjustments	-213	-54	-267	365	-214	150
Return on plan assets in excess of the amount included in interest expense (+) and interest income (-)	-	-	-	-	-46	-46
Total remeasurement gains (-) and losses (+) included in OCI	**324**	**-148**	**177**	**447**	**-261**	**186**
Contributions by employers and paid benefits	-346	86	-260	-387	27	-360
Settlements	-235	235	0	-508	508	0
Exchange rate difference	-6	19	13	-258	38	-221
Carrying value, at 31 December	**6 084**	**-1 890**	**4 193**	**7 030**	**-2 848**	**4 182**

Defined benefit plans typically expose the Group to the following actuarial risks:

Actuarial Changes in bond yields

A change in corporate or government bond yields may trigger a change in the discount rate applied by the group. This affects both the net defined benefit liability. The yield curve maturities correspond to the duration of the obligation.

Life-expectancy

Defined benefit plans are to provide benefits mostly for active members. Thus increases in life-expectancy will not have an effect on the defined benefit obligation.

Final salary

Plan benefits are depending on member´s salary in the final years leading up to retirement. As a result of this the higher development of average salary can lead to higher defined benefit obligation (DBO).

Defined beneft plans assumptions (wighted average) used in calculating benefit oblications

	2019	2018
Discount rate%	1.48%	2.18%
Future pension increase%	1.34%	1.42%
Salary increase%	1.99%	2.10%
Inflation%	1.64%	1.85%
Estimated remaining employment time in years	13.3	13.5

Analysis of plan assets

Plan assets includes qualifying insurance policies that match the amount and timing of benefits payable under the plan. The division of plan assets between different asset gategories is not possible to provide.

Sensitivity analysis of defined benefit plan

Sensitivity analysis is based on the data that was used when calculating the reported DBO according to IAS 19. The analysis is made by changing the assumption under examination while holding all other assumptions original.

Assumption	Change in assumptions	Change in DBO
Discount rate	+ 0.50%	-461 135
	- 0.50%	515 494
Inflation	+ 0.50%	476 326
	- 0.50%	-441 490
Mortality	+ 1 year	276 052
	- 1 year	-272 538

19. Trade payables and other non interest-bearing liabilities

EUR thousand	31 Dec 2019	31 Dec 2018
Trade payables	87 891	112 470
Other current liabilities	17 045	30 840
Liabilities to associated companies	0	90
Advance payments	771	1 382
Accrued expenses and prepaid income	85 409	99 977
Total	**191 116**	**244 758**
Accrued expenses and prepaid income		
Derivatives	457	68
Personnel related accruals	62 505	78 605
Rents	92	2 409
Other accruals	22 355	18 895
Total	**85 409**	**99 977**

20. Commitments and contingencies

Commitments

EUR thousand	31 Dec 2019	31 Dec 2018
Energy	-	6 778
Raw material purchases	66 661	68 572
Leasing	3 190	4 922
Other	260	833
Total	**70 111**	**81 106**

The company has made realestate investments under the Value Added Tax Act, whose revisions and annual auditable amounts are EUR 9.6 (8.5) million from years 2011 - 2019.

Disputes and litigations

The Group's management does not have knowledge of any open disputes or litigations, which would have a significant impact on the Group's financial position.

21. Related party transactions

The Group's related parties include the Board of Directors, the CEO and Group management team, their closely related family members as well as companies or joint ventures owned by them. The group companies has not have significant transactions with these parties during the financial year.

The Group's related parties also include subsidaries owned directly or indirectly by the parent company as well as associated companies. Related party transactions include such transactions with related parties, which have not been eliminated in the consolidated financial statements.

2019

EUR thousand	Sale of goods and services	Purchases of goods and services	Receivables	Liabilities
Management and Board of Directors	-	-	-	-
Associated companies	606	3	72	88
Total	**606**	**3**	**72**	**88**

2018

EUR thousand	Sale of goods and services	Purchases of goods and services	Receivables	Liabilities
Management and Board of Directors	-	-	-	-
Associated companies	617	24	63	90
Total	**617**	**24**	**63**	**90**

Employee benefits of Board of Directors, CEO and members of the management team

EUR thousand	2019	2018
Short-term benefits	5 772	4 658
Long-term benefits	1 100	1 113
Total	**6 872**	**5 771**

In addition to monthly compensation Group management team members are part of the Group's bonus system as well as long-term incentive program. The CEO and other members of the management team, have the right, if the company terminates the contract, depending on the person, to equivalent compensation of 12-24 months salary including termination period.

22. Discontinued operations

Fazer announced 11 June 2019, the sale of Fazer Food Service to Compass Group Plc. The divestment was completed on 31 January 2020 after the competition approval from the European Commission was received. The operations have been reclassified as discontinued operations in 2019 financial statements.

The financial performance and cash flow information for discontinued operations 2019 and 2018 as well as assets and liabilities for 2019 are presented below. There were no assets and related liabilities classified as held for sale in 2018.

EUR thousand	2019	2018
Revenue	597 317	593 167
Expenses	-552 609	-565 055
Result before taxes	44 708	28 113
Income taxes	-9 271	-5 853
Result from discontiued operations	**35 437**	**22 259**

EUR thousand	31 Dec 2019	31 Dec 2018
Assets		
Goodwill	29 601	-
Intangible assets	1 447	-
Property, plant and equipment	50 070	-
Investments in associated companies	1 271	-
Deferred tax receivables	941	-
Inventories	9 742	-
Trade and other receivables	76 149	-
Cash and cash equivalents	2 692	-
Total assets	**171 914**	**-**
Liabilities		
Interest-bearing liabilities	25 131	-
Other non-current liabilities	1 507	-
Provisions	19	-
Trade and other payables	86 628	-
Deferred tax liabilities	3 844	-
Total liabilities	**117 128**	**-**

EUR thousand	2019	2018
Net cash flow from operating activities	44 882	44 107
Net cash flow from investing activities	-5 825	-5 928
Net cash flow from financing activities	-38 647	-37 369

23. Business acquisitions and disposals

On 19 June 2019 Fazer announced that they have agreed to acquire the shares in Kaslink Oy as a part of Fazer Lifestyle Foods business area. The acquisition was completed on 15 August 2019 after the Finnish competetition authorities approved the transaction. Kaslink is a company specialiced in developing and manufacturing premium food products, where sustainably procuded domestic oat is an integral component.

Kaslinks impact on Group 2019 revenue was EUR 23.6 million and on operating profit EUR -2.4 million. If the acquisition had taken place on 1 January 2019, management estimates, that the impact on Group revenue would have been approximately EUR 60 million and on operating profit EUR -4 million. The preliminary fair value of intangible assets acquired (including amongst other customer relationships and brands) is EUR 2.3 million. The EUR 29.6 million goodwill arising from the acquisition reflects market share and business knowledge. The Group profit for 2019 includes acquisition-related costs of EUR 1.5 million.

Fazer have not made any acquisitions in 2018.

Below is a summary of the fair values of assets aquired an liabilities assumed at the date of the aquisition as well as the cash flow impact of the aquisition.

EUR thousand	2019
Assets	
Intangible assets	2 343
Property, plant and equipment	40 898
Deferred tax receivables	1 274
Inventories	5 117
Trade and other receivables	2 678
Cash and cash equivalents	1 024
Total assets	**53 334**
Liabilities	
Interest-bearing liabilities	23 785
Provisions	-
Trade and other short-term payables	6 643
Deferred tax liabilities	3 577
Total liabilities	**34 006**
Net assets	19 328
Consideration paid	48 881
Goodwill	**29 553**

Cash flow impact of acquisition	2019
Consideration paid	48 881
Cash and cash equivalents acquired	-1 024
Decrease (+) / increase (-) in contingent consideration liability	-270
Cash flow impact	**47 587**

In 2019, Fazer sold real estates in Stockholm, Sweden and St Petersburg, Russia. The assets of the sold real estates amounted to EUR 3.5 million and liabilities to EUR 2.9 million. The transaction had an EUR 8.8 million positive impact on the cash flow and it resulted in a EUR 7.8 million gain, which is included in other operating income.

24. Subsidiaries

	Country	Group ownership (%) 2019	2018
Owned by the parent			
Fazer Bakeries B.V.	The Netherlands	70	70
Fazer Finland Oy	Finland	100	100
Fazer Food AB	Sweden	80	80
Fazer Konfektyr AB	Sweden	100	100
Fazer Leipomot Oy	Finland	100	100
Fazer Makeiset Oy	Finland	100	100
Fazer Ravintolat Oy	Finland	100	100
Oy NIS-Nordic Ind. Sales Ab	Finland	51	51
Kaslink Oy	Finland	100	-
Owned by other group companies			
Fazer Sweden AB	Sweden	100	100
Crestjoy Oy	Finland	70	70
Fazer Bageri AB	Sweden	100	100
Fazer Eesti AS	Estonia	100	100
Fazer Food Services AB*	Sweden	80	80
Fazer Food Services AS*	Norway	80	80
Fazer Food Services A/S*	Denmark	80	80
Fazer Food Services Oy*	Finland	80	80
Fazer Food OÜ*	Estonia	80	80
Froosh AB	Sweden	-	100
Froosh Sverige AB	Sweden	-	100
Fazer Norway AS	Norway	100	100
Fazer Denmark ApS	Denmark	100	100
Froosh K.K	Japan	100	100
Kiinteistö Oy Helsingin Kanneltori	Finland	100	100
Lovik Fastighets AB	Sweden	-	100
OOO Avangard	Russia	70	70
OOO Fazer	Russia	70	70
OOO Fazer Bakeries Invest	Russia	70	70
SIA Fazer Latvija	Latvia	100	100
Startplace Oy	Finland	70	70
UAB Fazer Lietuva	Lithuania	100	100
Fazer USA Inc.	The USA	100	100
Kaslink Foods Oy	Finland	100	-
Kaslink Aito Oy	Finland	100	-
Associated companies			
Semma Oy*	Finland	45	45
Unica Oy*	Finland	49	49

*) These companies forms discontinued operations.

Changes in Group structure during 2019

Froosh Sverige AB merged into Froosh AB in January 2019.

Froosh AB merged into Fazer Sweden AB in January 2019.

Oy Karl Fazer Ab acquired Kaslink Oy and its subsidiaries Kaslink Foods Oy and Kaslink Aito Oy in August 2019.

Lovik Fastighets AB sold in December 2019.

25. Non-controlling interests

	Fazer Bakeries B.V. Group The Netherlands	
EUR thousand	**2019**	**2018**
Non-controlling interests share of voting right	30%	30%
Current assets	199 483	179 044
Non-current assets	61 959	63 650
Current liabilities	26 985	24 432
Non-current liabilities	5 589	4 571
Revenue	164 149	167 828
Costs and other income	-157 287	-163 379
Result for the period	6 862	4 449
Result attributable to non-controlling interests	2 059	1 334
Total other comprehensive income for the period	15 301	-3 866
Total other comprehensive income attributable to non-controlling interests	4 590	-1 160
Non-controlling interests share of equity	26 062	21 471
Dividents paid to non-controlling interests	-	-

	Fazer Food AB Sweden	Fazer Food AB Group Sweden
EUR thousand	**2019**	**2018**
Non-controlling interests share of voting right	20%	20%
Current assets	33 181	232 610
Non-current assets	85 493	81 938
Current liabilities	1 671	102 836
Non-current liabilities	-	24 147
Revenue	-	593 167
Costs and other income	-135	-574 206
Result for the period	1 290	18 961
Result attributable to non-controlling interests	258	3 792
Total other comprehensive income for the period	-859	14 362
Total other comprehensive income attributable to non-controlling interests	-172	2 872
Non-controlling interests share of equity	23 401	37 513
Dividents paid to non-controlling interests	-	-

	Oy NIS-Nordic Ind. Sales Ab Finland	
EUR thousand	**2019**	**2018**
Non-controlling interests share of voting right	49%	49%
Current assets	1 683	1 800
Non-current assets	16	21
Current liabilities	701	883
Non-current liabilities	15	21
Revenue	6 940	7 692
Costs and other income	-6 574	-7 261
Result for the period	365	431
Result attributable to non-controlling interests	179	211
Total other comprehensive income for the period	364	423
Total other comprehensive income attributable to non-controlling interests	178	207
Non-controlling interests share of equity	481	450
Dividents paid to non-controlling interests	147	147

26. Investments in associated companies

There are no investments in associated companies in continuing operations. However, discontinued operations includes the associated companies Semma Oy and Unica Oy, which are included using the equity method. Fazer has not had any significant associated companies during this or the previous reporting period.

EUR thousand	2019	2018
Carrying amout in the balace sheet	-	1 165
Share of associated companies result	-	-

27. Events after the reporting period

In January 2020, Fazer announced plans to close its production facility in Kaarina, Finland and started collaboration negotiations affecting all employees at the Kaarina factory. Fazer has evaluated different options for increasing efficiency in the production of Fazer Yosa oat products and enabling further growth, and in February 2020 decided to close the production facility in Kaarina and move the operations to Fazer's factory in Koria.

Also in January 2020, Fazer announced the acquisition of Vuohelan Herkku's bakery and mill businesses. Vuohelan Herkku is one of the forerunners in gluten-free baking in Finland and has a new gluten-free bakery in Lahti. Through this acquisition, Fazer becomes the market leader in gluten-free bakery products in Finland.

As part of Fazer's shift of focus to the FMCG and direct-to-consumer business, Fazer Group announced the sale of Fazer Food Services to Compass Group in June 2019. The sale was approved by the EU Commission's competition authorities on 28 January and took effect on 31 January 2020.

In February 2020, Fazer decided to reorganise the Finnish field sales forces of its businesses into two joint organisations: one for fresh goods and one for long shelf life products.

In March 2020, Fazer announced plans to change its supply chain and product development organisations in the confectionery business and started collaboration negotiations. Fazer has evaluated different alternatives to increase the efficiency of the cooperation between the supply chain and product development operations and come to the conclusion that the organisational structure could be changed in order to clarify roles and responsibilities.

In addition to other mitigation actions already ongoing due to the coronavirus epidemic (COVID-19), Fazer started collaboration negotiations in March 2020 to temporarily lay off the entire personnel of some 400 persons in Fazer Ravintolat Oy (mainly Fazer Retail Finland).

Parent company financial statements

1. Parent Company income statement

EUR	Notes	2019	2018
Revenue	5.1	**94 847 222,58**	**79 814 458,48**
Other operating income	5.2	24 672 661,27	29 566 060,74
Materials and services	5.3	-249,20	-126 819,12
Personnel costs	5.4	-12 074 377,33	-10 216 637,44
Depreciation and impairments	5.5	-11 170 028,29	-9 450 789,64
Other operating costs	5.6	-88 687 461,29	-84 297 839,98
Operating profit/loss		**7 587 767,74**	**5 288 433,04**
Financial income and expenses	5.7	-1 535 681,85	-874 307,42
Profit/loss before income tax and appropriations		**6 052 085,89**	**4 414 125,62**
Appropriations	5.8	56 300 350,88	60 908 636,02
Income taxes	5.9	-12 349 590,80	-13 814 969,28
Profit for the year		**50 002 845,97**	**51 507 792,36**

2. Parent Company balance sheet

EUR	Notes	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Intangible assets	6.1	47 241 843,07	56 492 690,76
Tangible assets	6.2	29 187 844,09	30 309 640,45
Investments	6.3	1 040 655 739,08	990 227 432,39
Total non-current assets		**1 117 085 426,24**	**1 077 029 763,60**
Current assets			
Long-term receivables	6.4	28 000 000,00	1 000 000,00
Short-term receivables	6.5	176 839 298,75	214 228 613,05
Cash and cash equivalents		27 036 163,96	30 018 111,65
Total current assets		**231 875 462,71**	**245 246 724,70**
TOTAL ASSETS		**1 348 960 888,95**	**1 322 276 488,30**
EQUITY AND LIABILITIES			
Equity	6.6		
Share capital		126 479 260,00	126 479 260,00
Retained earnings		573 950 894,63	582 520 750,77
Profit for the financial year		50 002 845,97	51 507 792,36
Total equity		**750 433 000,60**	**760 507 803,13**
Appropriations	6.7	**1 745 096,67**	**345 447,55**
Liabilities			
Long-term liabilities	6.8	4 734 252,78	10 515 503,06
Short-term liabilities	6.9	592 048 538,90	550 907 734,56
Total liabilities		**596 782 791,68**	**561 423 237,62**
TOTAL LIABILITIES AND EQUITY		**1 348 960 888,95**	**1 322 276 488,30**

3. Statement of cash flows for the Parent Company

EUR thousand	2019	2018
Cash flows from operating activities		
Result before appropriations and taxes	6 052	4 414
Adjustments (1	13 312	10 417
Change in working capital (2	14 439	-12 796
Interests received	2 723	4 052
Interests paid	-3 622	-3 113
Other financial income and expenses, net	-297	-3 210
Dividends received	153	153
Income taxes paid	-15 612	-15 464
Net cash from operating activities	**17 148**	**-15 547**
Cash flows from investing activities:		
Purchase of tangible and intangible assets	-1 034	-34 846
Investments in shares of subsidiaries	-50 428	-
Proceeds from sale of tangible and intangible assets	224	393
Investments in financial assets	2 000	-
Proceeds from sale of financial assets	-	21 757
Net cash from investing activities	**-53 238**	**-12 696**
Cash flows from financing activities:		
Increase in loan receivables	-22 437	-43 136
Decreae in loan receivables	22 794	60 565
Proceeds from debt	31 420	21 592
Repayment of debt	-35 763	-7 552
Net change of balance in group cash pool	-24 218	10 715
Net change of commercial papers	60 991	-11 494
Group contributions paid and received, net	60 400	62 000
Dividends paid	-60 078	-60 710
Net cash from financing activities	**33 109**	**31 980**
Net increase (+) decrease (-) in cash and cash equivalents	**-2 982**	**3 737**
Cash and cash equivalents at beginning of period	30 018	26 281
Cash and cash equivalents at end of period	**27 036**	**30 018**
1) Adjustments		
Depreciations and impairments	11 170	9 451
Financial income and expenses	1 536	874
Non-cash income and expenses	607	92
Total adjustments	**13 312**	**10 417**
2) Change in working capital		
Decrease (+) / (-) increase in short term receivables	40 861	-14 727
Decrease (-) / (+) increase in short term payables	-26 422	1 931
Change in working capital	**14 439**	**-12 796**

4. Principles for preparing financial statements in parent company

The financial statements have been prepared according to Finnish Accounting Standards (FAS).

VALUATION PRINCIPLES

Valuation principles

In the balance sheet, tangible and intangible assets have been booked at their acquisition cost deducted with planned depreciations. Depreciations according to plan have been calculated as straight-line depreciations based on the economic lifetimes of tangible and intangible assets:

The lifetimes are:

- Other long-term expenses 3–10 years
- Brands 10 years
- Buildings and structures 10–50 years
- Machinery and equipment 3–25 years

Depreciation is started from the month that use of an asset begins.

Valuation of financial instruments

Derivative instruments are measured at fair value. Currency forwards are valued at fair value for contracts with corresponding time to maturity. The values are calculated as difference between the spot and forward rates on the closing day. Any change in interest cost or income is included in the valuation.

Derivatives are used to hedge foreign currency denominated balance sheet items, operative flows and to manage liquidity. Changes in the fair value of derivatives are recognised in the financial items in the income statement.

Fazer Group hedges against wheat price risks using wheat options and futures. Wheat hedges are executed by Oy Karl Fazer Ab on behalf of the Fazer Group companies. Raw material derivatives are valued at market prices. Generally accepted valuation models are applied to perform valuation. In the parent company gains and losses related to wheat derivatives are recognised under financial items in the income statement.

Research and development expenditures

Research and development expenditures are recognized as yearly expenses in the year they incur. Expenditure on development projects that are expected to bring substantial financial benefits to whole business area in the future can be capitalized after consideration and depreciated in 3–5 years.

Pensions

Pension costs are expensed in the year they incur.

CASH FLOW STATEMENT

Group internal cash pool receivables and liabilities as well as other group internal financing transactions (loan receivables and payables) are shown in cash flow from financing activities.

5. Notes to the profit and loss statement

5.1 Revenue

Revenue by geographical area

EUR thousand	2019	2018
Finland	68 113	59 387
Other Nordic Countries	24 328	17 770
Russia	1 233	1 477
The Baltics	1 114	1 120
Other	60	60
Total	**94 847**	**79 814**

5.2 Other operating income

EUR thousand	2019	2018
Rental income	2 118	2 066
Sale of services	22 338	27 083
Other	217	418
Total	**24 673**	**29 566**

5.3 Materials and services

EUR thousand	2019	2018
Purchases during the period	0	-1
External services	-	128
Total	**0**	**127**

5.4 Personnel expenses and number of employees on average

EUR thousand	2019	2018
Salaries and wages	9 968	8 426
Pension expenses	1 484	1 356
Other social security costs	622	435
Total	**12 074**	**10 217**
Management salaries and fees		
Managing Director and Board members	1 493	1 761

Some of the parent company directors have a collective pension arrangement, which gives them right to retire at the age of 60 or 62. Pension liabilty has been insured in Finnish life insurance company and it's covered by annual payments.

The number of employees on average for the period was 69 (83)

5.5 Depreciations and amortisations

EUR thousand	2019	2018
Immaterial rights	6 428	3 624
Other capitalised expenditure	3 657	4 787
Buildings and structures	578	578
Machinery and equipment	394	360
Other tangible assets	113	101
Total	**11 170**	**9 451**

5.6 Other operating expenses

EUR thousand	2019	2018
Other social expenses	48	371
Rents	446	497
Energy and other maintenance expenses	743	945
IT expenses	20 222	23 100
Travel expenses	666	493
Freight and other transport expenses for sales	1	32
Marketing expenses	1 039	1 081
Administrative expenses	65 510	57 687
Other costs	13	92
Total	**88 687**	**84 298**

Fees to the auditor

EUR thousand	2019	2018
PricewaterhouseCoopers Oy		
Audit fees	103	100
Audit related services	-	-
Tax services	-	-
Other services	10	191
Total	**113**	**291**

5.7 Financial income and expenses

EUR thousand	2019	2018
Dividens from Group companies	153	153
Dividens from others	-	-
Interest income from Group companies	1 525	2 127
Interest income from others	1 377	1 289
Exchange rate gains and losses, net	-	-
Other financing income	2	140
Financial income total	**3 058**	**3 710**
Interest expenses to Group companies	-3 453	-2 648
Interest expenses to others	-299	-461
Exchange rate gains and losses, net	-414	-1 009
Other financing expenses	-427	-466
Financial expenses total	**-4 593**	**-4 584**
Financial income and expenses total	**-1 536**	**-874**

5.8 Appropriations

EUR thousand	2019	2018
Depreciation difference (- increase / + decrease)	-1 400	509
Group contributions, received	63 200	64 000
Group contributions, given	-5 500	-3 600
Total	**56 300**	**60 909**

5.9 Income taxes

EUR thousand	2019	2018
Tax on income from operations	-12 514	-13 811
Tax for previous accounting periods	165	-4
Change in deferred taxes	-	-
Total	**-12 350**	**-13 815**

6. Notes to the balance sheet

6.1 Intangible assets

EUR thousand	Immaterial rights	Other capitalised expenditures	Total
Cost at 1 Jan 2018	**35 996**	**35 217**	**71 213**
Additions	30 704	2 883	33 588
Disposals	-	-757	-757
Reclassifications	-	3 001	3 001
Cost at 31 Dec 2018	**66 701**	**40 344**	**107 045**
Additions	-	580	580
Disposals	-	-35	-35
Reclassifications	-	267	267
Cost at 31 Dec 2019	**66 701**	**41 156**	**107 857**
Accumulated depreciation and impairment losses at 1 Jan 2018	**-14 739**	**-27 674**	**-42 413**
Depreciations for the period	-3 624	-4 787	-8 411
Depreciations on disposals	-	272	272
Reclassifications	-	-	0
Accumulated depreciation and impairment losses at 31 Dec 2018	**-18 363**	**-32 189**	**-50 552**
Depreciations for the period	-6 428	-3 657	-10 085
Depreciations on disposals	-	22	22
Reclassifications	-	-	0
Accumulated depreciation and impairment losses at 31 Dec 2019	**-24 791**	**-35 824**	**-60 615**
Carrying amount			
31 Dec 2019	41 910	5 332	47 242
31 Dec 2018	48 338	8 155	56 493

6.2 Tangible assets

EUR thousand	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost at 1 Jan 2018	**3 083**	**17 583**	**5 878**	**1 816**	**3 060**	**31 419**
Additions	-	-	172	89	997	1 258
Disposals	-	-	-	-	0	0
Reclassifications	-	59	-	-	-3 060	-3 001
Cost at 31 Dec 2018	**3 083**	**17 642**	**6 050**	**1 906**	**997**	**29 677**
Additions	-	-	109	153	193	454
Disposals	-	-	-	-	-224	-224
Reclassifications	-	-	406	83	-757	-267
Cost at 31 Dec 2019	**3 083**	**17 642**	**6 564**	**2 142**	**209**	**29 640**
Revaluations 31 Dec 2018	**8 671**	**0**	**0**	**0**	**0**	**8 671**
Revaluations 31 Dec 2019	**8 671**	**0**	**0**	**0**	**0**	**8 671**
Accumulated depreciation and impairment losses at 1 Jan 2018	**0**	**-1 818**	**-4 468**	**-714**	**0**	**-6 999**
Depreciations for the period	-	-578	-360	-101	-	-1 040
Depreciations on disposals	-	-	-	-	-	0
Reclassifications	-	-	-	-	-	0
Accumulated depreciation and impairment losses at 31 Dec 2018	**0**	**-2 396**	**-4 828**	**-815**	**0**	**-8 039**
Depreciations for the period	-	-578	-394	-113	-	-1 085
Depreciations on disposals	-	-	-	-	-	0
Reclassifications	-	-	-	-	-	0
Accumulated depreciation and impairment losses at 31 Dec 2019	**0**	**-2 974**	**-5 222**	**-928**	**0**	**-9 124**
Carrying amount						
31 Dec 2019	11 754	14 667	1 342	1 214	209	29 187
31 Dec 2018	11 754	15 245	1 222	1 091	997	30 309

6.3 Investments

EUR thousand	Shares in subsidiaries	Other shares and holdings	Total
Cost at 1 Jan 2018	**986 963**	**3 264**	**990 227**
Additions	-	-	0
Disposals	-	-	0
Cost at 31 Dec 2018	**986 963**	**3 264**	**990 227**
Additions	50 428	-	50 428
Disposals	-	0	0
Cost at 31 Dec 2019	**1 037 391**	**3 264**	**1 040 656**

Subsidiaries

		Ownership (%)	
	Country	31 Dec 2019	31 Dec 2018
Fazer Leipomot Oy	Finland	100	100
Fazer Bakeries B.V.	The Netherlands	70	70
Fazer Finland Oy	Finland	100	100
Fazer Food AB	Sweden	80	80
Fazer Ravintolat Oy	Finland	100	100
Fazer Konfektyr AB	Sweden	100	100
Fazer Makeiset Oy	Finland	100	100
Oy NIS-Nordic Industrial Sales Ab	Finland	51	51
Kaslink Oy	Finland	100	-

6.4 Long term receivables

EUR thousand	31 Dec 2019	31 Dec 2018
Loan receivables from Group companies	25 000	1 000
Other receivables	3 000	-
Long term receivables total	**28 000**	**1 000**

6.5 Short-term receivables

EUR thousand	31 Dec 2019	31 Dec 2018
Trade receivables	481	513
Receivables from Group companies	168 381	209 409
Other loan receivables	2 000	-
Other receivables	1 583	1 513
Accruals	4 394	2 794
Total	**176 839**	**214 229**
Receivables from Group companies		
Trade receivables	9 290	45 402
Loan receivables	87 098	90 296
Group contribution	63 200	64 000
Other receivables	5 331	2 016
Accruals	3 462	7 695
Total	**168 381**	**209 409**
Material items in accruals		
Accrued income taxes	1 179	-
Derivatives	991	195
Other	2 224	2 599
Total	**4 394**	**2 794**

6.6 Equity

EUR thousand	31 Dec 2019	31 Dec 2018
Restricted equity		
Share capital 1.1	126 479	126 479
Share capital 31.12	**126 479**	**126 479**
Restricted equity total	**126 479**	**126 479**
Non-restricted equity		
Retained earnings 1.1	634 029	643 231
Payment of dividends	-60 078	-60 710
Retained earnings 31.12	**573 951**	**582 521**
Profit for the period	50 003	51 508
Non-restricted equity total	**623 954**	**634 029**
Total equity	**750 433**	**760 508**

Shares

Number of shares	31 Dec 2019	31 Dec 2018
Preference shares	3 958 763	3 958 763
Ordinary shares	2 365 200	2 365 200
Total	**6 323 963**	**6 323 963**

Preference shares carry a preferential right to dividends, amounting to at least 6% of the share's nominal amount, ahead of ordinary shares in connection to the yearly distribution of the dividends. In the annual general meeting each preference share carries one vote and each ordinary share carries ten votes.

6.7 Appropriations

EUR thousand	31 Dec 2019	31 Dec 2018
Accumulated depreciation difference	1 745	345
- unrecognised deferred tax liability	349	69

6.8 Long-term liabilities

EUR thousand	31 Dec 2019	31 Dec 2018
Deferred tax liability	1 734	1 734
Loans from Group companies	-	8 781
Other liabilities	3 000	-
Long-term liabilities total	**4 734**	**10 516**

Deferred tax liabilities arises from the following

EUR thousand	31 Dec 2019	31 Dec 2018
Revaluations	1 734	1 734
Total	**1 734**	**1 734**

6.9 Short-term liabilities

EUR thousand	31 Dec 2019	31 Dec 2018
Other interest bearing liabilities	12 200	12 852
Trade payables	3 041	4 025
Commercial papers	109 485	48 494
Liabilities to group companies	459 830	473 698
Advances received	381	-
Other liabilities	1 585	5 644
Accruals	5 526	6 195
Total	**592 049**	**550 908**
Liabilities to Group companies		
Other interest bearing liabilities	448 115	441 143
Trade payables	5 564	23 551
Group contributions	5 500	3 600
Accrued liabilities	651	5 403
Total	**459 830**	**473 698**
Material items in accruals		
Accrued tax liability	-	2 083
Wages, salaries and social expenses	4 441	2 919
Interests	79	86
Other	1 006	1 106
Total	**5 526**	**6 195**

7. Collaterals and commitments

7.1 Guarantees

Guarantees given on behalf of other Group companies

EUR thousand	31 Dec 2019	31 Dec 2018
Guarantees	16 762	11 825

7.2 Leasing liabilities

Leasing and rental agreements

EUR thousand	31 Dec 2019	31 Dec 2018
Due for payment the following financial period	1 340	1 894
Due for payment later	1 109	1 750
Total	**2 450**	**3 644**

7.3 Other contingent liabilities

EUR thousand	31 Dec 2019	31 Dec 2018
Energy purchase commitments	-	6 778
Others	284	274

The company has made investments in real estatets for which, in accordance with local Value Added Tax Act, there is an responsibility to repay VAT that have been deducted for the last 10 years in connection with investments. This responsibility is linked, from a VAT perspective, to the type of operations conducted in the real estate. Below are the yearly liabilities based on the qualifying investments for the last 10 years.

EUR thousand	31 Dec 2019	31 Dec 2018
2013	2	2
2014	23	29
2016	2 505	2 922
2017	50	57
2018	11	13
2019	-	-
Total	**2 591**	**3 024**

7.4 Derivatives

All derivative instruments in Fazer Group were made by the parent company and all contracts were made with external counterparties. More information regarding derivatives and financial risk management is disclosed in notes 11.1 - 11.3 to the consolidated financial statements as well as in the accounting policies.

All derivative instruments are categorised in Level 2 of the fair value hierarchy (a more detaild description can be found in note 11.1 to the consolidated financial statements).

The fair value of all derviatives are measured through profit or loss and they are included in finacial income and expenses. The fair value of the derivatives equals their carrying amount at year-end.

Fair values of derivatives

	31 Dec 2019			31 Dec 2018		
EUR thousand	**Pos.**	**Neg.**	**Net**	**Pos.**	**Neg.**	**Net**
Currency derivatives	919	-582	337	265	-370	-106
Commodity derivatives	282	-282	-	53	-53	-
Total	**1 201**	**-864**	**337**	**317**	**-423**	**-106**

Nominal values of derivatives

EUR thousand	**31 Dec 2019**	**31 Dec 2018**
Currency forward contracts	177 232	117 754
Currency options	-	9 000
Commodity futures	8 925	2 495
Commodity options	8 251	-

Calculation of key figures

$$\text{Return on equity (\%)} = \frac{\text{Result for the period}}{\text{Equity, average of the beginning and end of the period}}$$

$$\text{Equity ratio (\%)} = \frac{\text{Equity}}{\text{Equity + liabilities - advances received}}$$

$$\text{Gearing (\%)} = \frac{\text{Interestbearing liabilities - cash and cash equivalents}}{\text{Equity}}$$

Signatures of the board of directors report and financial statements

Vantaa, 24th March 2020

Berndt Brunow
Chairman of the Board of Directors

Anders Dreijer
Vice Chairman of the Board of Directors

Klaus Cawén
Member of the Board of Directors

Ketil Eriksen
Member of the Board of Directors

Jan Fazer
Member of the Board of Directors

Johan Linder
Member of the Board of Directors

Cecilia Marlow
Member of the Board of Directors

Juhani Mäkinen
Member of the Board of Directors

Christoph Vitzthum
Chief Executive Officer

Auditor's note

Our auditors' report has been issued today

Helsinki, 24th March 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Martin Grandell
Authorised Public Accountant