Oy Karl Fazer Ab

Financial statements

1.1. - 31.12.2018

Table of Contents

Board of Directors' Report

In 2018, Fazer commenced the implementation of its new strategy to transform into a modern sustainable food company with a joint direction. While the economies in Fazer's key markets continued to develop favourably, the competitive landscape became tougher for all the businesses. Also, the extraordinarily hot summer affected Fazer's businesses. In addition, the weak performance in Fazer Bakery Russia and Sweden and the weakening of all Fazer's main foreign currencies had a negative impact on the 2018 financials. As a result, Fazer Group's net sales and operating profit decreased from the previous year.

In 2018, Fazer's brand positioning was redefined to amplify the consumer-centric approach. At the start of 2018, Fazer Retail was established as a separate business unit to strengthen the direct-to-consumer business. Also, the organisational setup for Fazer Lifestyle Foods was further developed. Focus on efficiency improvements continued with initiatives in several fields. Occupational safety and developing Fazer's safety culture remained an important theme with positive results.

Markets, business environment and sales

In 2018, the economies in Fazer's key markets continued to develop favourably. On the other hand, all of Fazer's main foreign currencies weakened against the euro, and affected Fazer´s financial performance negatively. The largest foreign currency impact on Fazer came from the Swedish krona, which weakened by 6% against the euro.

Year 2018 was a challenging year for Fazer Bakery Russia and Sweden. At the same time, the performance in Finland reached record levels and business in the Baltics developed positively: in these markets Fazer's market share also increased. Artisanal bread maintained its popularity, especially in Finland and Sweden. Bread consumption in Russia shifted towards lower-priced segments. The extraordinarily hot summer affected bread consumption in all markets. Fazer Bakery's net sales decreased to 552.3 M€ (2017: 583.2 excluding net sales of Bakery Shops transferred to Fazer Retail and net sales of Alku porridges transferred to Fazer Lifestyle Foods). Programmes are in place to turn the development and to increase operational efficiency in all Fazer Bakery operations.

Fazer Confectionery's net sales for 2018 reached 333.1 M€ (2017: 331.2). The market share in chocolate tablets increased and biscuit sales grew in Finland. In Sweden, Fazer kept its confectionary market share. Fazer Candy Store was opened to serve consumers online. Currently, the web store ships to EU countries only but the geographical expansion is being planned. Cooperation was started with JD.com to explore opportunities in the Chinese market.

Fazer Food Services with more than 1 000 restaurants in Finland, Sweden, Norway and Denmark reached net sales of 593.2 M€ (607.7). With comparable currency rates the net sales were at previous year level. Retention of existing contracts was on a good level while some unprofitable contracts were exited. Actions to improve performance were initiated and they will continue further into 2019 to strengthen the competitiveness of the business. Fazer's Culinary Teams from Sweden and Finland took a double victory at the culinary World Championships in Luxembourg in November.

The competition tightened in the smoothie and non-dairy markets, with both branded and large private label competitors vying for market share. Fazer Lifestyle Foods' net sales increased 21% and amounted 121.8 M€ (100.4). Several new products were launched during the year. The Froosh smoothie range was complemented with functional smoothies. Cereals and organic porridges were launched under the Fazer Alku breakfast food brand. The Fazer Yosa oat product family was expanded with eight products and the brand was refreshed with, for example, a new packaging design. Oat-based products have sparked global interest and Nordic oats are highly regarded around the world. Significant investments were made in Fazer Lifestyle Foods' organisational development and marketing activities to ensure future growth.

Fazer Retail was established as a separate business unit at the start of 2018 to strengthen Fazer's direct-to-consumer business. The business unit combines the Gateau bakery shops in Finland and Sweden with Fazer Cafés in Finland. The new business unit combines artisanal bakery products and high-quality delicacies with a first-class experience. In 2018, the focus was on building an organisation and operating platform for future growth and for expanding its retail expertise. The net sales of the new business unit reached 46.4 M€ during its first year of operation.

The Fazer Experience Visitor Centre was visited by more than 200,000 people in 2018, which is a new record.

Financial results

Fazer's reported net sales decreased by 1% from previous year and reached 1,618.2 M€ (1,641.6). The weakened foreign exchange rates reduced the net sales by 48.6 M€. The businesses acquired in 2017 increased the 2018 net sales by 18.8 M€ compared to previous year.

The Group's operating profit decreased to 84.2 M€ (92.1). Operating profit included 4.2 M€ (3.5) one-time restructuring costs and write-offs (net). Profit for the financial period amounted to 63.9 M€ (72.1). Fazer Confectionery was the only business area that improved its profitability.

Cash flow and financial position

The Group's financial position remained strong. Interest-bearing net debt totalled 95.0 M€ (79.0). The Group's equity ratio was 56.8% (55.1%).

Cash flow from operating activities was 114.6 M€ (149.6) and gross investments amounted to 50.5 M€ (108.0). The majority of the investments were done in new production equipment and upgrades to the existing machinery in the bakery and confectionery operations.

Key figures	2018	2017	2016
Net sales, M€	1,618.2	1,641.6	1,603.1
Operating profit, M€	84.2	92.1	90.1
– share of net sales, %	5.2	5.6	5.6
Return on equity, %	11.6	13.3	14.1
Equity ratio, %	56.8	55.1	54.2
Gearing, %	17.5	14.2	10.8

Personnel

At year-end, Fazer had 15,696 employees (15,993). Out of these, 91 (68) were employed by the parent company.

Personnel	2018	2017	2016
Number of employees, 31.12.	15,696	15,993	16,048
Number of employees, avg. FTE	13,242	13,198	13,287
Wages and salaries, M€	423.7	433.3	422.2

Strategy implementation

In 2018, Fazer began to implement its new strategy, with the aim to become a leading modern, sustainable food company in Northern Europe and beyond. With this strategic goal in mind, Fazer strengthened its focus on the consumer and updated the Fazer brand positioning. Fazer targets growth and value creation through portfolio choices, continued operational excellence and structural improvements. Despite 2018 having been a challenging year, Fazer is committed to improve its performance in all its businesses and geographies. Implementation of Fazer's new strategy included in 2018 a large number of value creation initiatives in different businesses and Group functions, building the organisation and capabilities for growth in the new Fazer Lifestyle Foods business area, creating the new Fazer Retail business unit, establishing a distribution company for Fazer Confectionary in the USA as well as planning and developing other means for profitability, growth and geographical expansion.

Quality, environment, occupational health & safety and food safety

In 2018, the focus in quality, environment, health and safety (QEHS) was on the development and digitalisation of the related management system, ensuring compliance with regulations, improving competences, strengthening risk management and promoting safety leadership.

New ways of communication and leadership activities continued to improve occupational health and safety. Management safety walks, safety reviews, safety commitments and other safety practises are part of the daily operations. Accident frequency fell by 17% from 2017. All businesses have safety plans in place.

Fazer continued to improve its quality and food safety management in many ways. In addition to the new digital QEHS system taken into use, the programme to certify all production sites against a global food safety system was continued, and allergen management was developed.

Fazer has certified all its production sites against the Global Food Safety System (FSSC 22000). In addition to this, also other QEHS management systems have been certified depending on the demands of the markets and customers. Fazer Food Services' HACCP (preventative food safety) process was digitalised and harmonised across the Nordics. In 2018, there were no product recalls.

Fazer's environmental management continued to improve through internal programmes and 3rd party certifications. Fazer continued to engage in energy efficiency activities, conducting energy efficiency mappings and self-assessments. Waste reduction actions across the Group were carried out, focusing on preventing food waste and recycling side streams. Fazer was the first food industry company to make a Finnish water stewardship commitment.

Sustainability

In 2018, Fazer revised and updated its sustainability approach to support the transformation into a leading, modern and sustainable food company with a joint direction. Fazer's ambitious direction towards 2030 consists of four core goals that support reaching the UN sustainable development goals through food. The core goals are: 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 for 2018 include systematic work to improve energy efficiency to reduce climate emissions and continuing to focus on food waste reduction. Fazer continued its commitments concerning the sustainable sourcing of cocoa, grain, soy, palm oil and fish, and increase of its offering of plant-based foods. Fazer's reputation remained on a good level in its main markets.

Risk management

Fazer regularly evaluates and analyses the Group's strategic, operative and financial risks within the framework of its risk management policy and takes action to mitigate these risks. In 2018, no major risks were realised. For more information on financial risk management, see Note 11.3 to the Financial Statements.

Research and development

Fazer continued to execute the Fazer Brainhow programme, which focuses on the connection between food and cognitive performance. Two clinical trials were successfully finalised in 2018. The BRAVE study, a cooperative project with Nokia and Nightingale Health investigating the effects of brain-friendly food on cognitive functions, physiology and blood biomarkers, showed very promising results that will be published in 2019.

Fazer Lifestyle Foods' technology and new product development work resulted in the launch of the new non-dairy oat products under the Fazer Yosa brand. The Fazer LOFO improver, which is a result of long-term R&D work, was presented at the international bakery exhibition (IBA) in Munich. This patented improver is the world's first enzyme-based solution to reducing the amount of FODMAP compounds in bread making the bread more belly-friendly.

Fazer's cooperation with universities and researchers continued and resulted in the publication of one doctoral dissertation and multiple master thesis works. Research and development costs amounted to 9.8 M€ (9.9).

Changes in Group legal structure

Fazer continued its work to simplify its legal structure and several legal entities were merged in 2018. The changes in the Group legal structure are disclosed in Note 22 to the Financial Statements.

Shares and share capital

At the end of 2018, 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 10 April 2018, the following Board members were re-elected: Berndt Brunow (Chairman), Anders Dreijer (Vice Chairman), Klaus Cawén, Ketil Eriksen, Jan Fazer, Leif Hagelstam, Johan Linder, Cecilia Marlow and Juhani Mäkinen.

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

Outlook for 2019

GDP growth in most of Fazer's main markets is expected to continue, but to slow down in 2019. The competitive environment is expected to remain tough for all Fazer's businesses.

Fazer will continue its transformation, with strong focus on execution. 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 further strengthen growth and internationalisation. Fazer will also continue to work on strengthening its competitiveness through its value creation programmes and the continuous development of its organisational and structural efficiency. In 2019, the net sales and the operating profit are expected to increase compared to previous year.

Events after the reporting period

In January 2019, Fazer announced considering closing of the Oulu bakery in Finland to improve efficiency of its bakery network. Collaboration negotiations concerning Oulu bakery were concluded in March 2019. Bakery's operations will gradually be transferred to other Fazer bakeries. Operations of the bakery and contracts of all 83 employees will end in September 2019.

In January, Fazer also announced its plan to invest 40 million euros into a new production facility in Lahti, Finland. With this investment, Fazer brings Finnish raw material based xylitol production back to Finland and builds the first xylitol manufacturing facility in the world that uses oat hull as its raw material. The xylitol market is expected to grow, and Fazer targets markets in Northern Europe and beyond with this plant-based product.

Proposal for distribution of profit

The parent company's distributable funds amount to 634,028,543.13 euros of which 51,507,792.36 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 9.50 euros per share	60,077,648.50 €
- to leave in profit brought forward	573,950,894.63 €
	634,028,543.13 €

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

Consolidated income statement

EUR thousand	Notes	2018	2017
Revenue	4	**1 618 184**	**1 641 615**
Other operating income	5.1	7 339	6 303
Change in finished goods and work in progress		-3 471	3 682
Materials and services	5.2	-587 354	-600 770
Employee benefits expenses	5.3	-534 757	-551 094
Depreciation, amortization and impairment	8, 9	-81 326	-81 685
Other operating expenses	5.4	-334 730	-326 264
Share of profit/loss of associated companies	23	335	293
Operating profit		**84 220**	**92 082**
Financial income and expenses	6		
Financial income		1 445	1 494
Financial expenses		-4 040	-4 090
Total financial income and expenses		**-2 594**	**-2 596**
Profit before income tax		**81 625**	**89 486**
Income tax	7.1	-17 753	-17 339
Profit for the year		**63 873**	**72 146**
Attributable to			
Owners of the parent company		58 535	63 378
Non-controlling interests	23	5 338	8 769

Consolidated statement of comprehensive income

EUR thousand	Notes	2018	2017
Profit for the year		**63 873**	**72 146**
Other comprehensive income			
Items that may be classified to profit or loss			
Cash flow hedges		252	2 721
Translation differences		-16 031	-8 975
Income tax relating to these items		-50	-544
Items that will not be reclassified to profit or loss			
Changes in fair value of financial assets		-	174
Remeasurements of defined benefit plans	18	-186	256
Income tax relating to these items		40	-84
Other comprehensive income, net of tax		**-15 977**	**-6 451**
Total comprehensive income for the period		**47 896**	**65 695**
Attributable to			
Owners of the parent company		45 977	58 890
Non-controlling interests	23	1 919	6 804

Consolidated balance sheet

EUR thousand	Notes	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Goodwill	10	158 720	160 598
Intangible assets	9	52 047	51 152
Property, plant and equipment	8	408 855	431 837
Investments in associated companies	24	1 165	1 075
Other non-current financial assets	11.1	3 116	3 116
Other non-current receivables	11.1	1 958	2 044
Deferred tax assets	7.3	1 106	1 046
Total non-current assets		**626 967**	**650 867**
Current assets			
Inventories	12	91 761	90 298
Trade and other receivables	13	198 867	206 025
Other current financial assets	11.1	-	21 809
Income tax receivables		2 994	4 008
Cash and cash equivalents	14	39 326	40 268
Total current assets		**332 948**	**362 409**
TOTAL ASSETS		**959 914**	**1 013 276**
EQUITY AND LIABILITIES	15		
Share capital		126 479	126 479
Other reserves		-15	-216
Retained earnings		358 462	372 749
Equity attributable to the owners of the parent		**484 927**	**499 012**
Non-controlling interests	23	59 434	58 310
Total equity		**544 361**	**557 322**
Non-current liabilities			
Interest-bearing liabilities	11.1, 17	51 725	54 658
Deferred tax liabilities	7.3	16 616	21 500
Pension obligations	18	4 182	4 380
Provisions	16	2 042	2 012
Other non-current liabilities		8 808	9 648
Total non-current liabilities		**83 373**	**92 197**
Current liabilities			
Interest-bearing liabilities	11.1, 17	82 635	86 460
Trade and other payables	19	244 758	268 883
Provisions	16	588	1 643
Income tax liabilities		4 199	6 771
Total current liabilities		**332 181**	**363 757**
Total liabilities		**415 553**	**455 954**
TOTAL EQUITY AND LIABILITIES		**959 914**	**1 013 276**

Consolidated statement of changes in equity

	Attributable to owners of the parent company							
EUR thousand	**Share capital**	**Fair value reserve**	**Hedge reserve**	**Translation differences**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018	**126 479**	**0**	**-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, net of taxes			170			170		170
Transferred to the statement of income, 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		**0**	**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**	**0**	**-15**	**-15 803**	**374 266**	**484 927**	**59 434**	**544 361**

	Attributable to owners of the parent company							
EUR thousand	**Share capital**	**Fair value reserve**	**Hedge reserve**	**Translation differences**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2017	**126 479**	**2 520**	**-2 393**	**3 818**	**347 642**	**478 066**	**51 652**	**529 718**
Profit for the period					**63 378**	**63 378**	**8 769**	**72 146**
Other comprehensive income								
Changes in revaluation of equity investments, net of taxes		140				140		140
Reclassification of sold equity investments to retained earnings		-2 659			2 659	0		0
Fair value adjustments, net of taxes			-822			-822		-822
Transferred to the statement of income, net of taxes			2 999			2 999		2 999
Remeasurement on defined benefit plan, net of taxes					207	207	-1	206
Translation differences				-7 011		-7 011	-1 963	-8 975
Comprehensive income for the period		**-2 520**	**2 177**	**-7 011**	**2 867**	**-4 487**	**-1 964**	**-6 451**
Transactions with owners in their capacity as owners								
Dividends provided for or paid					-37 944	-37 944	-147	-38 091
Balance at 31 December 2017	**126 479**	**0**	**-216**	**-3 193**	**375 942**	**499 012**	**58 310**	**557 322**

Consolidated statement of cash flows

EUR thousand	Notes	2018	2017
Cash flows from operating activities			
Profit before income tax		81 625	89 486
Adjustments[1]		77 828	87 807
Change in working capital[2]		-19 269	-5 951
Interest received		1 260	1 552
Interest paid		-1 401	-2 415
Other financial income and expenses, net		-1 673	-1 932
Dividends received		245	258
Income taxes paid		-23 976	-19 166
Net cash flows from operating activities		**114 639**	**149 639**
Cash flows from investing activities			
Acquisition of shares in subsidiaries, net of cash		-	-45 593
Purchases of tangible and intangible assets	8, 9	-50 529	-62 361
Proceeds from sale of other financial assets		21 941	13 210
Proceeds from sale of tangible and intagible assets		1 568	599
Net cash flows from investing activities		**-27 020**	**-94 145**
Cash flows from financing activities			
Repayment of current debt	11.4	-8 690	-9 971
Proceeds from current debt	11.4	18 152	3 002
Net cash flows from commercial papers	11.4	-11 494	-7 504
Repayment of leasing debt	11.4	-24 624	-25 392
Dividends paid		-60 857	-37 944
Net cash flows from financing activities		**-87 514**	**-77 808**
Net increase (+) decrease (-) in cash and cash equivalents		**106**	**-22 314**
Cash and cash equivalents at the beginning of the period	14	40 268	62 933
Exchange rate difference		-1 049	-353
Cash and cash equivalents at the end of the period	14	**39 326**	**40 268**

1) Adjustments

EUR thousand	Notes	2018	2017
Depreciations, amortisations and impairments	8, 9	81 326	81 685
Share of result in associated companies		-335	-293
Financial income and expenses	6	2 594	2 596
Non-cash income and expenses		-6 177	2 783
Other non-operating adjustments		420	1 036
Total adjustments		**77 828**	**87 807**

2) Change in working capital

EUR thousand	Notes	2018	2017
Decrease (+) / increase (-) in inventories		-3 078	-5 276
Decrease (+) / increase (-) in trade and other receivables		1 496	-6 685
Decrease (-) / increase (+) in trade and other payables		-17 687	6 010
Change in working capital		**-19 269**	**-5 951**

Notes to consolidated financial statements

1. Corporate information

Oy Karl Fazer Ab ("Company" or the "Parent company") is a Finnish limited liability company organized under the laws of Finland with its registered office in Helsinki. These consolidated financial statements comprise the parent company Oy Karl Fazer Ab and its subsidiaries (collectively the "Group", "Group companies" or "Fazer").

Fazer Group is an international family-owned company offering quality bakery, confectionery, biscuit and grain products, plant-based meals as well as food and café services. The Group consists of four business areas, and business unit which was established at the beginning of 2018, and shared functions of the Group. Fazer operates in nine countries and exports to around 40 markets. For a full list of shareholdings see Note 22. At year-end 2018, Fazer Group had 15,696 employees in eight countries.

The Board of Directors approved these consolidated financial statements for issue on March 20, 2019. 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, 2018. 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.

The consolidated financial statements are presented in thousand euros. EUR is parent company's functional and presentation currency. Figures presented in these financial statements have been rounded from exact figures and therefore the sum of figures presented individually can deviate from the presented sum figure. Key figures have been calculated using exact figures.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of 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. Acquired 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. The financial statements of the subsidiaries are prepared by using consistent accounting policies in Fazer Group.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is the fair value of the assets transferred, the liabilities incurred, and the equity instruments issued at the acquisition date. Any contingent consideration is recognised at fair value at the acquisition date and classified as a liability or equity. Contingent considerations classified as a liability are measured at fair value on each reporting date with changes recognised in the income statement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, without deducting non-controlling interest. The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

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 in the consolidated income statement before 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 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 correspond with the accounting principles used in the Group. 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 costs, dividends and unrealized internal margins have been eliminated in the consolidated financial statements. Non-controlling interest is presented separately from the net profit and disclosed as a separate item in the equity in accordance with the share of the non-controlling interest. 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 recognized at fair value through the income statement.

2.3 Summary of significant accouting policies

FOREIGN CURRENCY

Foreign currency transactions

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"). The consolidated financial information is presented in euros, which is the functional and presentation currency of the parent company.

Translating the currency of the financial statements of foreign entities

Income statements of foreign entities are translated into euros at the average exchange rates of the year, and balance sheets are translated using the exchange rates at the balance sheet date. The translation of the accounting period's profit (loss) by using different rates in the consolidated statement of comprehensive income and the balance sheet causes a translation difference. That translation difference is recognised in equity and its movement is recognised in other comprehensive income. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries and the translation of the accumulated equity items after the acquisition are recognised in other comprehensive income. When the control over subsidiary changes, the accumulated translation differences are recognised as part of capital gain or loss. Goodwill arising from acquisitions of foreign entities as well as the fair value adjustments 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 last day of the reporting period.

Foreign operations

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Receivables and payables in foreign currencies are translated using exchange rates at the balance sheet date.

Fazer operates internationally and is exposed to several financial risks. The company aims to operate with low risk, and uses a variety of methods and financial derivative instruments to manage financial risks. All transactions are undertaken to manage risks and financial costs arising from underlying business or financing activities. More details are provided in Note 11.3.

The Board of Directors approves the Treasury Policy and the Commodity Risk Management Policy. All risks related to foreign exchange, interest rate, funding, liquidity, financial transaction counterparty and commodity price risks are governed by these policies.

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 it's 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.

Besides 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 open restaurants is recognised at point in 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 (i.e. lunch is served in the different restaurants and the recognition criteria of IFRS 15.35a is met). 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 EXPENCES

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.

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 lifetime
- 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.

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 income statement 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.

Group is applying recognition exemptions under IFRS 16.5-8 for short-term leases and leases of low value assets maximum EUR 5,000. Group has classified amongst others, laptops, other IT equipment and 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 payments

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 INSTRUMENTS

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets are classified into three measurement categories: amortized cost, fair value through profit or loss and fair value through other comprehensive income. Financial instruments, including derivatives, are initially recognised at fair value, and loans are recognised at amortised cost using effective interest method. Financial assets, including derivatives, are subsequently reported at fair value in accordance with the above classification, and loans are reported at amortised cost using effective interest method. Other financial liabilities, including derivatives, are subsequently reported at fair value.

The Group uses the following hierarchy for determining the fair values of the financial instruments:

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 recognised at amortised cost include bank deposits made to secure return on liquid funds. Return is received in the form of interest as the deposit matures and the initial principal is repaid. Cash on bank accounts is recognised at amortised cost. Return on these funds consist of interest payments.

Financial assets recognised at fair value through profit or loss include financial assets such as interest funds 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 fund holdings can be bought and sold according to the liquidity position of the Group. Interest funds are measured at fair value and all changes in value are recognised in the statement of profit or loss for the period in which they arise.

Other non-current financial assets consist of shares and other holdings in unlisted entities. Other non-current financial assets are recognised at fair value through profit or loss. If a reliable fair value cannot be determined, the asset is measured at cost less possible impairment losses.

Financial liabilities are mainly valued at amortised cost, with the exception of derivatives. Other interest-bearing liabilities consists of factoring debt and interest-bearing debt to other third parties that are not financial or pension institutions.

Financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. Financial liability is derecognised, when the financial liability is removed from the balance sheet when it is extinguished, or the obligation specified in the contract expires.

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 hedging transactions entered into in relation to certain highly probable raw material purchases and certain highly probable sales transactions denominated in foreign currencies. Both 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 identical with the 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. When foreign exchange 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 raw material, acquired in foreign currencies, is included in them at the balance sheet date. 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. Hedge accounting is not applied on raw material derivatives. The Group does not have embedded derivatives.

BORROWING COSTS

Arrangement fee for the revolving credit facility is periodized over the initial five years' period ending in December 2019. Other borrowing costs, such as commitment, agency, and extension fees are expensed when incurred. Currently there are no borrowing costs directly attributable to acquisition, construction or production of a qualifying asset, which would be capitalized as part of the cost of the asset.

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. 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 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 2018 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 9, IFRS 15 and IFRS 16 standards, when it complied IFRS -standards for the first time in 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 2019 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

Critical accounting 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 restaurantservices, and offers different service solutions for it's customers. Revenue from the contracts with the customers amounted to EUR 1,618 million (EUR 1,642 million).

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. Revenue form cafe- and restaurantservices are mostly recognised over time when the contractual obligations have been fulfilled, but also at point in time.

EUR thousand	2018	2017
Revenue recognised at point in time	1 098 965	1 111 279
Revenue recognised over time	519 219	530 336
Total	**1 618 184**	**1 641 615**

Net sales by Fazer businesses

Fazer Group established a new business unit Fazer Retail in the beginning of 2018. The net sales for 2017 have been made comparable.

EUR thousand	2018	2017
Fazer Bakery	552 303	583 191
Fazer Confectionery	333 147	331 180
Fazer Food Services	593 167	607 697
Fazer Lifestyle Foods	121 809	100 434
Fazer Retail	46 365	48 999
Others	3 353	3 135
Internal sales	-31 960	-33 021
Total	**1 618 184**	**1 641 615**

Net sales by country

External revenue are presented separately for countries where the sales are material. The geographical split of revenue consists both of sale of goods and from services.

EUR thousand	2018	2017
Finland	801 276	786 721
Sweden	382 644	402 934
Russia	171 114	199 057
Denmark	106 498	100 436
Norway	68 446	69 397
Estonia	20 513	20 795
Latvia	13 740	12 878
Lithuania	13 610	12 907
Other countries	40 344	36 491
Total	**1 618 184**	**1 641 615**

5. Other income and expenses

5.1 Other operating income

EUR thousand	2018	2017
Gain from sales of non-current assets	408	329
Rental income	1 390	991
Sale of services	1 140	1 050
Others	4 400	3 933
Total	**7 339**	**6 303**

5.2 Material and services

EUR thousand	2018	2017
Purchases during the period	577 809	589 705
Change in inventory	-5 471	-3 399
External services	15 016	14 464
Total	**587 354**	**600 770**

5.3 Employee benefits expenses

EUR thousand	2018	2017
Wages and salaries	423 657	433 274
Pension costs - defined contribution plans	57 436	58 228
Pension costs - defined benefit plans	96	240
Other employee benefit expenses	1 277	2 010
Social security costs	52 291	57 341
Total	**534 757**	**551 094**

Personnel on average per Fazer businesses	2018	2017
Fazer Bakery	5 545	5 602
Fazer Confectionary	1 126	1 077
Fazer Food Service	5 596	5 609
Fazer Lifestyle Foods	246	176
Fazer Retail	435	448
Other	294	286
Total	**13 242**	**13 198**

5.4 Other operating expenses

EUR thousand	2018	2017
Other social expenses	10 483	10 061
Rents	30 465	27 481
Energy	30 326	30 542
Production maintenance expenses	67 090	70 023
IT expenses	24 659	21 405
Travel expenses	12 054	11 978
Freight and other transport expenses	73 662	73 883
Marketing expenses	38 688	38 612
Administrative expenses	46 474	40 914
Loss from sales of non-current assets	828	1 366
Total	**334 730**	**326 264**

Audit fees	2018	2017
PricewaterhouseCoopers		
Audit	767	755
Tax services	10	1
Other fees	234	249
Total	**1 011**	**1 005**

6. Financial income and expenses

EUR thousand	2018	2017
Dividend income	0	15
Interest income		
Cash, cash equivalents and other financial assets	353	789
Derivatives	832	639
Other interest income	69	10
Exchange rate differences		
Derivatives	-	-
Other	-	-
Other financing income	191	42
Finance income	**1 445**	**1 494**
Interest expenses		
From leasing liabilities	-671	-785
Net-interest from defined benefit plans	-131	-135
Liabilities to financial institutions	-185	-186
Derivatives	-399	-674
Other interest expenses	-81	-56
Exchange rate differences		
Derivatives	-4 548	-1 401
Other	2 792	-120
Fees and expenses related to interest bearing debt	-478	-506
Other financing expense	-339	-228
Finance expense	**-4 040**	**-4 091**
Total finance income and expenses	**-2 594**	**-2 596**

Dividend income consists of distribution from shareholdings. Interest income arise from financial assets, foreign exchange transactions and other financing activities. Foreign exchange gains and losses arises 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	2018	2017
Income taxes		
Current tax on profits for the year	-22 036	-20 816
Adjustments of current taxes for prior periods	-384	108
Total income taxes	**-22 419**	**-20 708**
Deferred taxes		
Decrease (-) / increase (+) of deferred tax assets	3 233	1 486
Decrease (+) / increase (-) of deferred tax liabilities	1 434	1 882
Total deferred taxes	**4 667**	**3 368**
Total income taxes	**-17 753**	**-17 339**
Other comprehensive income		
Taxes related to items in other comprehensive income	-11	-628
Total	**-11**	**-628**

Reconciliation of effective tax rate

EUR thousand	2018	2017
Profit before tax	81 625	89 486
Parent company's tax rate	20.0 %	20.0 %
Tax calculated at parent company's tax rate	-16 325	-17 897
Effect of different tax rates in foreign subsidaries	-95	-308
Non-deductible expenses	-1 339	-805
Income not subject to tax	139	342
Goodwill impairment (-) / Reversal of goodwill impairment (+)	-	-
Utilisation of previously unrecognised tax losses carried forward	39	807
Unrecognised taxes on losses carried forward	39	-163
Changes in deferred taxes due to changes in corporate tax rates	190	-
Other adjustments of deferred taxes	-199	529
Tax for previous financial periods	-384	108
Other items	182	47
Taxes in income statement	**-17 753**	**-17 339**
Effective tax rate (%)	**21.7**	**19.4**

7.2 Losses carried forward

	Losses carried forward for which deferred tax has been recognised		Recognised deferred tax assets	
EUR thousand	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Expiry within five years	1 058	-	265	-
Expiry after five years	-	5 321	-	1 165
No expiry	2 890	17 921	636	3 956
Total	**3 948**	**23 242**	**900**	**5 121**

	Losses carried forward for which no deferred tax has been recognised		Unrecognised deferred tax asset	
EUR thousand	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Expiry within five years	735	1 273	147	182
Expiry after five years	2 159	2 651	661	717
No expiry	2 134	8 120	449	1 403
Total	**5 028**	**12 044**	**1 257**	**2 302**

7.3 Deferred tax assets and liabilities

Deferred income 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.

EUR thousand	1 Jan 2018	Recognised in income statement	Recognised in other compre-hensive income	Acquisitions and disposals	Exchange rate differences	31 Dec 2018
Deferred tax assets						
Intangible assets	2 006	5 877	-	-	-1	7 882
Tangible assets	1 199	-68	-	-	-19	1 112
Financial assets	91	-36	-54	-	-1	0
Inventory	357	-40	-	-	-35	282
Employee benefits	1 371	-104	37	-	-56	1 248
Provisions	77	257	-	-	-1	332
Tax losses carried forward	5 121	-4 072	-	-	-148	900
Other items	-8	1 421	-	-	-121	1 292
Total	**10 214**	**3 233**	**-17**	**0**	**-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	249	-	-	-201	6 526
Tangible assets	20 107	-1 330	-	-	-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	-	-	0	0
Other items	2 001	3	-	-	-122	1 882
Total	**30 669**	**-1 434**	**-7**	**0**	**-670**	**28 558**
Effect of netting deferred tax assets and liabilities	-9 169					-11 942
Total	**21 500**					**16 616**

EUR thousand	1 Jan 2017	Recognised in income statement	Recognised in other compre-hensive income	Acquisitions and disposals	Exchange rate differences	31 Dec 2017
Deferred tax assets						
Intangible assets	2 221	-216	-	4	-3	2 006
Tangible assets	820	401	-	-	-22	1 199
Financial assets	729	626	-1 265	-	-	91
Inventory	398	-18	-	-	-22	357
Employee benefits	1 516	-47	-68	-	-30	1 371
Provisions	69	9	0	-	-1	77
Tax losses carried forward	472	785	-	3 867	-4	5 121
Other items	77	-54	-	-6	-24	-8
Total	**6 302**	**1 486**	**-1 333**	**3 865**	**-106**	**10 214**
Effect of netting deferred tax assets and liabilities	-6 044					-9 169
Total	**259**					**1 046**
Deferred tax liabilities						
Intangible assets	1 297	420	-	4 761	0	6 478
Tangible assets	22 435	-2 158	-	-	-170	20 107
Financial assets	733	18	-686	-	-	65
Inventory	1 864	100	-	-	-6	1 958
Employee benefits	127	-50	-16	-	-2	59
Provisions	0	0	-	-	-	0
Other items	2 277	-212	-	-	-64	2 001
Total	**28 734**	**-1 882**	**-702**	**4 761**	**-242**	**30 669**
Effect of netting deferred tax assets and liabilities	-6 044					-9 169
Total	**22 691**					**21 500**

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 2017	**41 944**	**316 559**	**699 365**	**39 378**	**37 324**	**1 134 570**
Business combinations	-	2 144	837	55	356	3 391
Additions	115	33 753	22 565	742	29 055	86 230
Disposals	-	-2 107	-7 406	-1 363	-41	-10 917
Reclassifications	-	14 402	20 306	1 705	-34 489	1 924
Exchange rate differences	-221	-4 655	-10 685	-354	-675	-16 589
Cost at 31 Dec 2017	**41 839**	**360 096**	**724 982**	**40 163**	**31 530**	**1 198 610**
Business Combinations	-	-	-	-	-	0
Additions	93	22 140	26 558	1 412	22 238	72 441
Disposals	-540	-8 375	-12 082	-1 219	0	-22 216
Reclassifications	0	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	**41 041**	**370 927**	**740 119**	**38 671**	**28 097**	**1 218 854**
Accumulated depreciation and impairment losses at 1 Jan 2017	**-6 707**	**-159 012**	**-511 360**	**-29 768**	**0**	**-706 847**
Exchange rate differences	1	1 496	8 157	269	-	9 923
Depreciation on disposals and transfers	-	767	4 937	954	-	6 658
Depreciation for the year	-20	-27 933	-45 065	-2 238	-	-75 255
Impairment losses	-801	-442	-4	-4	-	-1 252
Accumulated depreciation and impairment losses at 31 Jan 2017	**-7 527**	**-185 125**	**-543 334**	**-30 787**	**0**	**-766 772**
Exchange rate differences	2	2 431	12 596	208	-	15 237
Depreciation on disposals and transfers	432	5 985	8 780	1 110	-	16 308
Depreciation for the year	-19	-28 419	-43 446	-1 876	-	-73 761
Impairment losses	-957	0	-1	-7	-46	-1 010
Accumulated depreciation and impairment losses at 31 Dec 2018	**-8 069**	**-205 128**	**-565 405**	**-31 351**	**-46**	**-809 998**
Carrying amount						
31 December 2018	32 972	165 799	174 714	7 320	28 051	408 855
31 December 2017	34 312	174 971	181 648	9 376	31 530	431 837

Right of use assets included in tangible assets

EUR thousand	Land and water	Buildings and structures	Machinery and equipment	Total
Cost at 1 Jan 2017	**198**	**75 818**	**22 244**	**98 260**
Additions	115	27 538	4 251	31 904
Business Combinations	-	2 144	370	2 514
Disposals	-	-2 093	-524	-2 617
Exchange rate differences	-5	-1 564	-222	-1 790
Cost at 31 Dec 2017	**308**	**101 844**	**26 120**	**128 271**
Additions	93	20 272	6 418	26 784
Business Combinations	-	-	-	0
Disposals	-523	-6 064	-4 332	-10 919
Exchange rate differences	-8	-1 790	-294	-2 092
Cost at 31 Dec 2018	**-131**	**114 261**	**27 912**	**142 043**
Accumulated depreciation at 1 Jan 2017	**-15**	**-18 900**	**-5 727**	**-24 642**
Depreciation on disposals	-	673	165	838
Depreciation for the year	-20	-19 980	-5 802	-25 802
Exchange rate differences	1	286	49	335
Accumulated depreciation at 31 Dec 2017	**-35**	**-37 922**	**-11 315**	**-49 271**
Depreciation on disposals	432	4 053	1 785	6 269
Depreciation for the year	-19	-20 280	-5 280	-25 579
Exchange rate differences	2	481	91	574
Accumulated depreciation at 31 Dec 2017	**380**	**-53 667**	**-14 719**	**-68 007**
Carrying amount				
31 December 2018	249	60 594	13 193	74 037
31 December 2017	273	63 922	14 805	79 000

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 2017	**129 712**	**3 998**	**24 355**	**52 133**	**38**	**210 234**
Business combinations	34 160	-	23 284	-	-	57 444
Additions	-	-	6	2 436	119	2 561
Disposals	-240	-	-600	-20	-	-860
Transfers between items	-	-	3	-1 009	-82	-1 088
Exchange rate differences	-2 907	-118	-433	-274	-5	-3 738
Cost at 31 Dec 2017	**160 724**	**3 879**	**46 615**	**53 265**	**69**	**264 553**
Business Combinations	-	-	-	-	-	0
Additions	138	-	2	3 677	32	3 849
Disposals	-	-	-65	-500	-9	-574
Transfers between items	0	-	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**
Accumulated depreciation and impairment losses at 1 Jan 2017	**-126**	**-200**	**-5 443**	**-42 755**		**-48 523**
Exchange rate differences	-	18	18	231		267
Depreciation on disposals and transfers	-	-	600	32		632
Depreciation for the year	-	-576	-522	-4 080		-5 178
Accumulated depreciation and impairment losses at 31 Dec 2017	**-126**	**-758**	**-5 347**	**-46 572**		**-52 803**
Exchange rate differences	0	30	29	326		385
Depreciation on disposals and transfers	0	0	63	194		257
Depreciation for the year	-	-372	-904	-5 279		-6 556
Accumulated depreciation and impairment losses at 31 Jan 2018	**-126**	**-1 100**	**-6 159**	**-51 331**		**-58 716**
Carrying amount						
31 December 2017	158 720	2 624	39 615	9 758	50	210 766
31 December 2016	160 598	3 122	41 268	6 693	69	211 750

10. Goodwill and intangible assets with indefinite useful lives

The impairment testing of goodwill and trademarks were performed for Fazer's cash generating units; Fazer Bakeries, Fazer Confectionery, Fazer Food Services, Fazer Lifestyle Foods and Fazer Retail, according to the current business organization and responsibilities. Fazer Retail business unit was established in the beginning of 2018. 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.

The goodwill allocated to the Fazer Retail business unit has been reclassified from Fazer Bakery business area based on the fair value of the businesses.

	31 December 2018			31 December 2017		
EUR thousand	Goodwill	Trade marks*	Discount rate (WACC)**	Goodwill	Trade marks*	Discount rate (WACC) **
Fazer Bakery	12 327	-	10.3	13 129	-	8.3
Fazer Confectionery	80 738	18 476	6.7	80 738	18 476	5.1
Fazer Food Services	29 542	-	8.0	30 035	-	6.5
Fazer Lifestyle Foods	35 861	17 744	6.3	36 697	18 484	5.4
Fazer Retail	252	-	7.3	-	-	-
Total	**158 720**	**36 219**		**160 598**	**36 960**	

*) 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 have been considered in 2018. The components of WACC are risk-free long-term government bond rates, market and industry risk premiums, cost of debt and target capital structure.

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 55% of the planned level or even if the discount rate would increase to 25.7%.

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 37% of the planned level or even if the discount rate would increase to 24.7%.

For Fazer Food Services, the critical key assumptions are the development of profitability and the discount rate. According to management's estimate, the recoverable amount of Fazer Food Services exceeds the carrying amount, even if the annual EBITDA would fall to 30% of the planned level or even if the discount rate would increase to 41.1%.

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 42% of the planned level or even if the discount rate would increase to 19.0%. 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 2018				31 December 2017			
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								
Trade receivables	166 252	-	-	166 252	173 216	-	-	173 216
Other current financial assets	-	-	-	-	21 809	21 809	-	-
Receivables on hedging transactions	280	205	75	-	938	916	22	-
Cash and cash equivalents	39 326	-	-	39 326	40 268	-	-	40 268
Other non-current financial assets	3 116	3 116	-	-	3 116	3 116	-	-
Other non-current receivables	1 958	-	-	1 958	2 044	-	-	2 044
Liabilities								
Trade payables	112 470	-	-	112 470	113 522	-	-	113 522
Commercial papers	48 494	-	-	48 494	59 988	-	-	59 988
Leasing liabilities	73 014	-	-	73 014	77 739	-	-	77 739
Payables on hedging transactions	81	51	31	-	484	194	290	-
Other current interestbearing liabilities	12 852	-	-	12 852	3 390	1 138	-	2 252

Fair values of the borrowings are substantially equal to carrying amounts, as the borrowings are of short term nature and interest paid equals current market interest.

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 199 (889) thousand and EUR 0 (435) thousand, respectively.

Fair value hierarchy in the statement of financial position

The Group uses the following hierarchy for determining the fair values of the financial instruments:

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

	31 December 2018			31 December 2017		
EUR thousand	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets measured at FVOCI						
Hedge accounted derivatives	-	75	-	-	22	-
Assets measured at FVPL						
Other	-	-	3 116	-	-	3 116
Interest funds	-	-	-	-	21 809	-
Non-hedge accounted derivatives	-	205	-	-	916	-
Liabilities measured at FVOCI						
Hedge accounted derivatives	-	31	-	-	290	-
Liabilities measured at FVPL						
Non-hedge accounted derivatives	-	51	-	-	194	-
Other	-	-	-	-	-	1 138

The Group disposed of the investments in interest funds during 2018. The proceeds were used to repay part of the outstanding commercial papers. The interest income of EUR 28 thousand from the funds received in 2018 is included in the financial items.

During 2017 the Group sold its shareholdings in listed companies and holdings in foreign listed bonds. The fair value of the sold shares was EUR 8.7 million, and of the bonds EUR 4.9 million. The gain of EUR 3.2 million on the sale of the shares was recorded in retained earnings. A loss of EUR 0.1 million was realised on the sale of bonds and it was recognised through the income statement. Part of the bonds matured and part were sold as the final maturity approached.

11.2 Hedging activities and derivatives

Hedging gains and losses in operating profit EUR thousand	2018	2017
Cash flow hedge accounted		
Currency derivatives	212	-3 623
Non-qualifying hedges		
Commodity derivatives	52	-10
Total	**264**	**-3 633**
As adjustments to revenues	230	203
As adjustments to purchases	34	-3 836
Total	**264**	**-3 633**

Fair values of derivative instruments	31 December 2018			31 December 2017		
EUR thousand	Pos.	Neg.	Net	Pos.	Neg.	Net
Cashflow hedge accounted derivatives	75	-31	-44	22	-290	-268
Non qualifying currency derivatives	159	-44	115	914	-4	910
Commodity derivatives, non-qualifying	47	-6	40	2	-190	-188
Total	**280**	**-81**	**199**	**938**	**-484**	**454**

Nominal values of derivative financial instruments EUR thousand	31 December 2018	31 December 2017
Currency forward contracts	98 149	104 851
Currency options	9 000	-
Commodity derivatives	1 248	2 488

Derivatives maturity repayments	31 December 2018		31 December 2017	
EUR thousand	2019	2020	2018	2019
Gross settlement				
Currency forwards, cashflow hedges				
Inflow	16 665	-	20 222	-
Outflow	16 500	-	20 382	-
Currency forwards and options, non-qualifying				
Inflow	81 761	-	85 361	-
Outflow	81 651	-	84 404	-
Net settlement				
Commodity derivatives, non-qualifying				
Inflow	555	-	362	-
Outflow	692	-	2 041	-

The presented amounts are undiscounted cashflows based on agreements. The effect of discounting on the cashflows due during the next 12 months is minor.

The figures concerning commodity derivatives are nominal values of the agreements. The commodity derivatives are settled net, and the amount of the net cashflow is confirmed when the agreements are closed during the next 12 months.

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 - EUR, SEK, RUB, DKK, USD and NOK. In addition to this cocoa purchases are denominated in GBP and purchases of nuts are denominated in USD. According to the Policy the open 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%, 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 2018

EUR thousand	GBP	NOK	RUB	SEK	USD
Net trade receivables and payables exposure	-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**

Foreign currency exposure, 31 December 2017

EUR thousand	GBP	NOK	RUB	SEK	USD
Net trade receivables and payables exposure	-2 735	-	2 083	2 971	-566
Bank accounts	783	-1 006	95	-75 688	311
Loans and deposits	-	18 749	-9 548	33 669	-
Foreign exchange hedges	17 272	-9 717	10 491	56 753	2 506
Operative exposure, net of hedges	**15 320**	**8 026**	**3 121**	**17 705**	**2 251**

The above position does not include forecasted cashflows. A 10% adverse change in the foreign exchange rates of GBP, NOK, RUB, SEK and USD would result in a loss of EUR 1.2 (1.4) million, EUR 0.1 (0.7) million, EUR 0.2 (0.3) million, EUR 0.4 (1.6) 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 SEK. In the comparison year the adverse change in the foreign exchange rate refers to weakening in all the above currencies. A 10% adverse move in GBP and USD foreign exchange rates would result in EUR 6 thousand loss 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 2018					
EUR thousand	**NOK**	**RUB**	**SEK**	**DKK**	**JPY**	**USD**
Equity	28 635	54 063	212 451	27 902	-2 102	87

	31 December 2017					
EUR thousand	**NOK**	**RUB**	**SEK**	**DKK**	**JPY**	**USD**
Equity	9 341	57 136	175 921	25 083	-1 716	-

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

	31 December 2017					
EUR thousand	**NOK**	**RUB**	**SEK**	**DKK**	**JPY**	**USD**
Change in equity	1 038	6 348	19 547	2 787	-191	-

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 reasons. 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 1,248 (2,488) thousand were outstanding. A 10% change in the price of wheat derivatives would have an impact of EUR 14 (168) thousand on the operating profit. The change would not impact equity as the grain derivatives are not hedge accounted. No derivative financial instruments have been entered into concerning other commodity exposures. Gains and losses from wheat derivatives are recorded in material expenses in the income statement.

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 2018 and

2017 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 95.0 (79.0) million. Cash and cash equivalents decreased from previous year by EUR 1 million to EUR 39.3 (40.3) million at the end of 2018. With the exception of the leasing 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 0.2 million increase in the Group's interest expense. The calculation reflects the fact that above interest-bearing net debt consists mainly 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 (180) million, short term money market investments in the amount of EUR 12.4 (17.2) million and of cash and bank in the amount EUR 26.9 (23.0) million. At the end of 2017 the Group had investments in interest funds in the amount of EUR 21.8 million, but these holdings were disposed of during 2018. The final maturity date of the multicurrency revolving credit facility is in December 2021. In Russia, OOO Fazer holds an account overdraft limit in the amount of RUB 298 (297) 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 2018 as well as 2017, 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 34.9 (36.9) million equivalent is denominated in EUR, EUR 31.8 (34.6) million in SEK, EUR 4.7 (4.8) million in NOK, EUR 1.5 (1.2) million in DKK and EUR 0.1 (0.2) million in RUB. As per end of 2018 the entire multicurrency revolving credit facility of EUR 140 (180) million was 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.

Contractual maturity repayments on financial liabilities, 31 December 2018

EUR thousand	< 1 year	1-5 years	5-10 years	> 10 years
Commercial papers	48 500	-	-	-
Leasing liabilities	21 289	45 027	6 252	446
Accounts payable	112 470	-	-	-
Derivatives - gross outflow	98 844	-	-	-
Derivatives - gross inflow	-98 982	-	-	-
Short-term liabilities from financial institutions	-	-	-	-
Other	12 973	-	-	-
	195 094	**45 027**	**6 252**	**446**

Contractual maturity repayments on financial liabilities, 31 December 2017

EUR thousand	< 1 year	1-5 years	5-10 years	> 10 years
Commercial papers	60 000	-	-	-
Leasing liabilities	23 081	44 129	9 695	834
Accounts payable	113 522	-	-	-
Derivatives - gross outflow	106 827	-	-	-
Derivatives - gross inflow	-105 945	-	-	-
Short-term liabilities from financial institutions	-	-	-	-
Other	3 408	-	-	-
	200 893	**44 129**	**9 695**	**834**

Financial transactions counterparty credit risk

The Treasury Group 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% of 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 2018	**23 081**	**63 379**	**54 658**	**0**	**141 118**
Proceeds of debt	-	18 152	26 794	-	44 946
Repayment of debt	-24 624	-20 185	-	-	-44 809
Business combinations	-	-	-	-	0
Transfer between non-current and current	25 441	-	-25 441	-	0
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**

	Current		Non-current		
EUR thousand	Leasing liabilities	Interest-bearing liabilities	Leasing liabilities	Interest-bearing liabilities	Total
1 January 2017	**18 817**	**74 244**	**53 786**	**0**	**146 847**
Proceeds of debt	-	3 002	31 890	-	34 892
Repayment of debt	-25 392	-17 475	-	-	-42 866
Business combinations	503	3 520	2 018	-	6 041
Transfer between non-current and current	29 760	-	-29 760	-	0
Exchange rate differences	-149	87	-640	-	-701
Other non-cash movements	-459	-	-2 636	-	-3 095
31 December 2017	**23 081**	**63 379**	**54 658**	**0**	**141 118**

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 2018	31 Dec 2017
Interest-bearing net debt	95 035	79 041
Total equity	544 361	557 322
Net debt to equity ratio	17.5 %	14.2 %

12. Inventories

EUR thousand	31 Dec 2018	31 Dec 2017
Materials and supplies	59 498	54 711
Work in progress	3 555	3 780
Finished products	28 708	31 807
Total	**91 761**	**90 298**

13. Trade and other non interest-bearing receivables

EUR thousand	31 Dec 2018	31 Dec 2017
Non interest-bearing receivables		
Trade receivables	166 189	173 156
Other receivables	13 786	16 176
Receivables from associated companies	63	60
Advance payments	2 009	2 150
Accruals	16 820	14 484
Total	**198 867**	**206 025**
Accruals		
Derivative instuments	235	1 015
Other accruals	16 584	13 470
Total	**16 820**	**14 484**

Trade receivables

Fazer Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits to use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. When determining the loss allowance provision the expected credit losses also incorporate information of the future perspective.

EUR thousand	31 December 2018 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**

EUR thousand	31.12.2017 Undue	Past due up to 90 days	91-180 days past due	Past due over 180 days	Total
Expected loss rate	0.1 %	0.9 %	36.0 %	68.3 %	
Gross carrying amount	159 783	13 124	78	1 525	174 510
Loss allowance provision	112	114	28	1 041	1 295
Carrying amount					**173 215**

Reconciliation of loss allowance provision

EUR thousand	31 Dec 2018	31 Dec 2017
Loss allowance as at 1 January	**1 295**	**831**
Increase in provision recognised in profit or loss in other expenses during the period	-142	799
Receivables written off during the year as uncollectible	-438	-336
Loss allowance as at 31 December	**715**	**1 295**

The gross carrying amount of trade receivables, reflecting the maximum exposure to credit risk, is EUR 167.0 (174.5) million.

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 10.6 (12.0) milloin. No contract assets have been recognised in the financial statements of 2018 or 2017.

14. Cash and cash equivalents

EUR thousand	31 Dec 2018	31 Dec 2017
Cash and bank	26 922	23 048
Short-term deposits	12 404	17 220
Total	**39 326**	**40 268**

Cash and bank include funds held on bank accounts. Short-term money market investments consist of deposits with banks.

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 2017	3 959	2 365	6 324	126 479
31 December 2018	**3 959**	**2 365**	**6 324**	**126 479**
Number of votes	**3 959**	**23 652**	**27 611**	

At the end of December 2018, 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 share carries one vote and each ordinary share 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 9.50 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.

Fair value reserve

The net change of the fair value of equity investments as well as debt investments are recorded in the reserve. When disposing equity instruments the amount in the fair value reserve is reclassified to retained earnings, whereas the amount in relation to debt investments are recognised through the income statement.

Hedge reserve

Currently this reserve consits solely of the hedging 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.

Other reserves		
EUR thousand	**31 Dec 2018**	**31 Dec 2017**
Fair value reserve	-	-
Hedge reserve	-15	-216
Total	**-15**	**-216**

Retained earnings		
EUR thousand	**31 Dec 2018**	**31 Dec 2017**
Translation differences	-15 803	-3 193
Retained earnings	374 266	375 942
Total	**358 462**	**372 749**

16. Provisions

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**
Additions through business combinations	-	-	-	**0**
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

EUR thousand	Restructuring	Restoration of leased premises	Other	Total
1 Jan 2017	615	2 098	563	**3 275**
Provision additions	1 069	49	115	**1 233**
Additions through business combinations	-	-	-	**0**
Released during the period (-)	-513	-80	-154	**-747**
Reversals of unused provisions	-	1	-	**1**
Exchange rate differences	-17	-57	-32	**-106**
31 Dec 2017	**1 154**	**2 010**	**491**	**3 655**
Current	1 154	116	374	1 643
Non-current	-	1 895	117	2 012

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 consists mainly of leases of 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 2018	31 Dec 2017
Current	21 289	23 081
Non-current	51 725	54 658
Total	**73 014**	**77 739**

Depreciations in relation to right to use asset arising from leasing contracts amounted to EUR 25.6 (25.8) million and they 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	2018	2017
Items in financial expenses		
Interest expenses	671	785
Items in other operating expense		
Expense relating to short-term leases	189	312
Expense relating to low-value assets	3 169	3 029
Expense relating to until further notice contracts	2 922	2 720
Expense relating to variable lease payments	26 630	24 781
Total, included in other operating expenses	**32 910**	**30 841**

Leases not yet commenced, which the Group is committed to, amounted to EUR 6.5 (7.9) million as at 31 December 2018.

The variable lease payments relates mostly to Fazer Food Services and Fazer Bakery business areas. If the net sales of these business areas would increase by 1 % it would have an effect of EUR 0.3 million increasing the expense.

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 2018 in the Group were in Sweden and Finland.

The Swedish defined benefit plan is ITP2 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 ITP2 pension plans in Sweden are secured through 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 2018 fiscal year, 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 pension plan secured through 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 credit insurance with PRI Pensionsgaranti. There are no actives in this plan.

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	2018	2017
Current service cost	96	240
Interest cost	116	119
Total	**211**	**359**

Employee benefit assets and liabilities recognised in the balance sheet

EUR thousand	31 Dec 2018	31 Dec 2017
Present value of funded obligations	2 995	3 328
Fair value of plan assets	-2 848	-3 124
Funded status	147	204
Present value of unfunded obligations	4 035	4 162
Net defined benefit liability (+) / asset (-)	**4 182**	**4 366**
Total defined benefit assets in the balance sheet	-	-14
Total defined benefit liability in the balance sheet	4 182	4 380
Total defined benefit liability in the balance sheet	**4 182**	**4 366**

Present value of obligations and fair value of plan assets

	2018			2017		
EUR thousand	Present value of obligation	Fair value of plan assets	Net benefit liability/(asset)	Present value of obligation	Fair value of plan assets	Net benefit liability/(asset)
Carrying value, at 1 January	**7 490**	**-3 124**	**4 366**	**8 522**	**-3 660**	**4 861**
Current service cost	94	1	96	240	-	240
Interest expence (+) income (-)	152	-36	116	164	-45	119
Total recognized in the income statement	246	-35	211	404	-45	359
Actuarial gain and loss on obligations arising from changes in financial assumptions	82	-	82	441	-	441
Actuarial gain and loss on obligations arising from experience adjustments	365	-214	150	-1 161	-	-1 161
Return on plan assets in excess of the amount included in interest expense (+) and interest income (-)	-	-46	-46	-	463	463
Total remeasurement gains (-) and losses (+) included in OCI	**447**	**-261**	**186**	**-719**	**463**	**-256**
Contributions by employers and paid benefits	-387	27	-360	-477	43	-433
Settlements	-508	508	0	-	-	0
Exchange rate difference	-258	38	-221	-239	74	-165
Carrying value, at 31 December	**7 030**	**-2 848**	**4 182**	**7 490**	**-3 124**	**4 366**

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

	2018	2017
Discount rate %	2.18 %	2.24%
Future pension increase %	1.42 %	1.24%
Salary increase %	2.10 %	1.87%
Inflation %	1.85 %	1.78%
Estimated remaining employment time in years	13.5	14.5

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 assumption	Change in DBO
Discount rate	+ 0.50 %	-445 139
	- 0.50%	497 653
Inflation	+ 0.50 %	458 650
	- 0.50%	-425 488
Mortality	+1 year	264 967
	-1 year	-261 623

19. Trade payables and other non-interest-bearing liabilities

EUR thousand	31 Dec 2018	31 Dec 2017
Trade payables	112 470	113 521
Other current liabilities	30 840	32 058
Liabilities to associated companies	90	68
Advance payments	1 382	1 229
Accrued expenses and prepaid income	99 977	122 007
Total	**244 758**	**268 883**
Accrued expenses and prepaid income		
Derivatives	68	561
Personnel related accruals	78 605	94 618
Rents	2 409	2 901
Other accruals	18 895	23 927
Total	**99 977**	**122 007**

20. Commitments and contingencies

Commitments

EUR thousand	31 Dec 2018	31 Dec 2017
Energy	9 362	8 480
Raw material purchase	68 572	53 675
Leasing	4 922	5 016
Other	833	2 579
Total	**83 690**	**69 750**

The company has made real estate investments under the Value Added Tax Act, whose revisions and annual auditable amounts are EUR 8.5 (8.5) million from years 2010 - 2018.

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.

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**

2017

EUR thousand	Sale of goods and services	Purchases of goods and services	Receivables	Liabilities
Management and Board of Directors	-	-	-	-
Associated companies	701	10	60	68
Total	**701**	**10**	**60**	**68**

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

EUR thousand	2018	2017
Short-term benefits	4 658	4 971
Long-term benefits	1 113	1 666
Total	**5 771**	**6 637**

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. Subsidiaries

	Country	Group ownership (%) 2018	2017
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 Industrial Sales Ab	Finland	51	51
Owned by other Group companies			
Bioferme Oy	Finland	-	100
Fazer Sweden AB (prev. Gateau AB)	Sweden	100	100
Crestjoy Ltd	Cyprus	-	70
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
Fazer Kvarn AB	Sweden	-	100
Froosh AB	Sweden	100	100
Froosh Sverige AB	Sweden	100	100
Froosh Oy	Finland	-	100
Fazer Norway AS (prev. Froosh AS)	Norway	100	100
Fazer Denmark ApS (prev.Froosh ApS)	Denmark	100	100
Froosh K.K	Japan	100	100
Kiinteistö Oy Helsingin Kanneltori	Finland	100	80
Lovik Fastighets AB	Sweden	100	80
OOO Avangard	Russia	70	70
OOO Fazer	Russia	70	70
OOO Fazer Bakeries Invest	Russia	70	70
SIA Fazer Latvija	Latvia	100	100
Startplace Holdings Ltd	Cyprus	-	70
Startplace Oy	Finland	70	70
UAB Fazer Lietuva	Lithuania	100	100
Fazer USA Inc.	The USA	100	-
Associated companies			
Semma Oy (prev. Sonaatti Oy)	Finland	45	45
Unica Oy	Finland	49	49

Changes in Group structure during 2018

Crestjoy Ltd merged into Crestjoy Oy in February 2018
Startplace Holdings Ltd merged into Startplace Oy in February 2018
Froosh Oy and Bioferme Oy merged into Fazer Finland Oy in August 2018
Fazer USA Inc. was established in August 2018
Fazer Kvarn AB merged into Fazer Sweden AB in November 2018

Froosh Sverige AB merged into Froosh AB and Froosh AB into Fazer Sweden AB after the balance sheet date in January 2019.

23. Non-controlling interests

EUR thousand	Fazer Bakeries B.V. Group The Netherlands 2018	2017
Non-controlling interests share of voting right	30 %	30%
Current assets	179 044	187 448
Non-current assets	63 650	68 468
Current liabilities	24 432	31 619
Non-current liabilities	4 571	5 773
Revenue	167 828	196 096
Costs and other income	-163 379	-182 274
Result for the period	4 449	13 822
Result attributable to non-controlling interests	1 334	4 147
Total other comprehensive income for the period	-3 866	9 268
Total other comprehensive income attributable to non-controlling interests	-1 160	2 780
Non-controlling interests share of equity	21 471	22 632
Dividents paid to non-controlling interests	-	-

EUR thousand	Fazer Food AB Group Sweden 2018	2017
Non-controlling interests share of voting right	20 %	20%
Current assets	232 610	244 959
Non-current assets	81 938	91 790
Current liabilities	102 836	116 428
Non-current liabilities	24 147	43 878
Revenue	593 167	607 697
Costs and other income	-574 206	-585 329
Result for the period	18 961	22 367
Result attributable to non-controlling interests	3 792	4 473
Total other comprehensive income for the period	14 362	19 361
Total other comprehensive income attributable to non-controlling interests	2 872	3 872
Non-controlling interests share of equity	37 513	35 289
Dividents paid to non-controlling interests	-	-

EUR thousand	Oy NIS-Nordic Industrial Sales Ab Finland 2018	2017
Non-controlling interests share of voting right	49 %	49%
Current assets	1 800	1 273
Non-current assets	21	7
Current liabilities	883	478
Non-current liabilities	21	6
Revenue	7 692	7 408
Costs and other income	-7 261	-7 105
Result for the period	431	303
Result attributable to non-controlling interests	211	149
Total other comprehensive income for the period	423	310
Total other comprehensive income attributable to non-controlling interests	207	152
Non-controlling interests share of equity	450	390
Dividents paid to non-controlling interests	147	147

24. Investments in associated companies

The Group includes also the associated companies Semma Oy (prev. Sonaatti Oy) and Unica Oy, which are included in the consolidation using the equity method.

Fazer has not had any significant associated companies during this or the previous reporting period.

EUR thousand	2018	2017
Carrying amout in the balace sheet	1 165	1 075
Share of associated companies result	335	293

25. Events after the reporting period

In January 2019, Fazer announced considering closing of the Oulu bakery in Finland to improve efficiency of its bakery network. Collaboration negotiations concerning Oulu bakery were concluded in March 2019. Bakery's operations will gradually be transferred to other Fazer bakeries. Operations of the bakery and contracts of all 83 employees will end in September 2019.

In January, Fazer also announced its plan to invest 40 million euros into a new production facility in Lahti, Finland. With this investment, Fazer brings Finnish raw material based xylitol production back to Finland and builds the first xylitol manufacturing facility in the world that uses oat hull as its raw material. The xylitol market is expected to grow, and Fazer targets markets in Northern Europe and beyond with this plant-based product.

Parent company financial statements

1. Parent company income statement

EUR	Notes	2018	2017
Revenue	5.1	**79 814 458,48**	**111 468 174,04**
Change in finished goods and work in progress		-	877 871,10
Other operating income	5.2	29 566 060,74	26 338 609,59
Materials and services	5.3	-126 819,12	-37 421 131,30
Personnel costs	5.4	-10 216 637,44	-16 065 212,99
Depreciation and impairments	5.5	-9 450 789,64	-11 219 621,42
Other operating costs	5.6	-84 297 839,98	-88 853 580,82
Operating profit		**5 288 433,04**	**-14 874 891,80**
Financial income and expenses	5.7	-874 307,42	3 051 301,27
Profit/loss before income tax		**4 414 125,62**	**-11 823 590,53**
Appropriations	5.8	60 908 636,02	63 998 584,32
Income taxes	5.9	-13 814 969,28	-10 663 334,89
Profit for the year		**51 507 792,36**	**41 511 658,90**

2. Parent company balance sheet

EUR	Notes	31 Dec 2018	31 Dec 2017
Assets			
Non-current assets			
Intangible assets	6.1	56 492 690,76	28 800 107,51
Tangible assets	6.2	30 309 640,45	33 092 178,09
Investments	6.3	990 227 432,39	990 227 432,39
Total non-current assets		**1 077 029 763,60**	**1 052 119 717,99**
Current assets			
Long-term receivables	6.4	1 000 000,00	20 549 428,38
Short-term receivables	6.5	214 228 613,05	195 931 462,44
Financial securities	6.6	-	21 490 471,89
Cash and cash equivalents		30 018 111,65	26 281 446,58
Total current assets		**245 246 724,70**	**264 252 809,29**
		1 322 276 488,30	**1 316 372 527,28**
Equity and liabilities			
Equity	6.7		
Share capital		126 479 260,00	126 479 260,00
Retained earnings		582 520 750,77	601 719 136,67
Profit for the financial year		51 507 792,36	41 511 658,90
Total equity		**760 507 803,13**	**769 710 055,57**
Appropriations	6.8	**345 447,55**	**854 083,57**
Liabilities			
Deferred tax liability	6.9	1 734 252,78	1 734 252,78
Long-term liabilities	6.10	8 781 250,28	10 087 618,17
Short-term liabilities	6.11	550 907 734,56	533 986 517,19
Total liabilities		**561 423 237,62**	**545 808 388,14**
Total liabilities and equity		**1 322 276 488,30**	**1 316 372 527,28**

3. Parent company statement of cash flow

EUR thousand	2018	2017
Cash flows from operating activities		
Profit before appropriations and taxes	4 414	-11 824
Adjustments for:		
Depreciation according to plan	9 451	11 220
Financial income and expenses	874	-6 639
Profit on sale of fixed assets	92	-
Cash generated from operations before working capital changes	**14 831**	**-7 243**
Working capital changes:		
Increase in trade and other receivables	-16 991	-4 642
Change in inventories	-	-3 710
Increase in trade payables	1 799	1 948
Cash generated from operations	**-361**	**-13 647**
Interest paid and payments from other financial expenses of operations	-3 561	-6
Interest received and other financial income	4 319	2 288
Dividends received	153	166
Income taxes paid	-15 464	-7 821
Net cash from operating activities	**-14 914**	**-19 021**
Cash flow from investing activities:		
Purchase of tangible and intangible assets	-34 846	-6 811
Proceeds from sale of tangible and intangible assets	393	8 703
Purchase of subsidiaries	-	-53 120
Net cash used in investing activities	**-34 453**	**-51 229**
Cash flow from financing activities:		
Increase in short-term loan receivables	-43 136	-14 454
Decreae in short-term loan receivables	40 617	1 546
Increase in long-term loan receivables	-401	67
Decreae in long-term loan receivables	19 450	4 389
Proceeds from short-term borrowings	64 532	110 187
Repayment of short-term borrowings	-49 433	-70 017
Proceeds from long-term borrowings	-1 306	16 202
Group contributions paid	-1 500	-
Group contributions received	63 500	39 900
Dividends paid	-60 710	-37 944
Net cash used in financing activities	**31 613**	**49 876**
Net decrease in cash and cash equivalents	**-17 754**	**-20 373**
Cash and cash equivalents at beginning of period	**47 772**	**68 145**
Cash and cash equivalents at end of period	**30 018**	**47 772**

4. Principles for preparing financial statements in parent company

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

VALUATION PRINCIPLES

Valuation of non-current assets

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 calculated 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

Cash flow has been prepared according to the Finnish Accounting Board's general guidelines (30th of January 2007). The cash pool receivables and liabilities are shown in cash flow from financing activities.

COMPARABILITY OF INCOME STATEMENT

The operations of the company have changed from the beginning of year 2018 as a result of the transfer of the Mill operations to another company at the end of year 2017. Hence the definition of net sales has changed, and the net sales consists of group internal management fees and income from royalties. The net sales of 2017 have been adjusted to take into consideration this and are now comparable. The income statement includes 11 months of the Mill operations and are therefore not entirely comparable with the 2018 income statement.

5. Notes to the income statement

5.1 Revenue

Revenue by geographical area

EUR thousand	2018	2017
Finland	59 387	84 946
Nordic Countries	17 770	15 070
The Baltic	1 120	2 543
Russia	1 477	3 991
Other	60	4 918
Total	**79 814**	**111 468**

5.2 Other operating income

EUR thousand	2018	2017
Rental income	2 066	2 371
Sale of services	27 083	23 793
Others	418	174
Total*	**29 566**	**26 339**
*) from which Group internal	28 842	25 709

5.3 Materials and services

EUR thousand	2018	2017
Purchases during the period	-1	40 253
Change in inventory	-	-2 832
External services	128	-
Materials and external services total	**127**	**37 421**

5.4 Personnel expenses and number of employees on average

Number of employees

	2018	2017
Number of employees on average for the year	83	131
Blue colar	-	78
White collar	83	53
Total	**83**	**131**

Personnel expenses

EUR thousand	2018	2017
Personnel expenses		
Salaries and wages	8 426	13 044
Pension expenses	1 356	2 204
Other social security costs	435	817
Total	**10 217**	**16 065**
Management salaries and fees		
Managing director and Board members	1 761	1 228

Some of the parent company directors have 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.

5.5 Depreciations and amortisations

EUR thousand	2018	2017
Depreciations according to plan		
Immaterial rights	3 624	3 373
Other capitalised expenditure	4 787	4 057
Buildings and structures	578	1 235
Machinery and equipment	360	2 428
Other tangible assets	101	128
Total	**9 451**	**11 220**

5.6 Other operating expenses

EUR thousand	2018	2017
Other social expenses	371	282
Rents	497	1 279
Energy and other maintenance expenses	945	4 744
IT expenses	23 100	20 467
Travel expenses	493	848
Freight and other transport expenses for sales	32	2 386
Marketing expenses	1 081	1 159
Administrative expenses	57 687	57 678
Loss from sales of investments	92	11
Total	**84 298**	**88 854**

Audit fees

EUR thousand	2018	2017
PricewaterhouseCoopers Oy		
Audit	100	111
Other services	191	206
Total	**291**	**317**

5.7 Financial income and expenses

EUR thousand	2018	2017
Dividends		
From Group companies	153	153
Other	-	13
Dividends total	**153**	**166**
Interest and other financing income		
From Group companies	2 127	2 096
Interest income from others	1 289	687
Other financing income	140	3 634
Interest and other financial income total	**3 557**	**6 417**
Financial income total	**3 710**	**6 582**
Interest and other financial expenses		
From group companies	-2 648	-1 579
Interest expenses from others	-461	-397
Other financing expenses	-466	-454
Exchange rate losses	-1 009	-1 101
Interest and other financial expenses total	**-4 584**	**-3 531**
Financial income and expenses total	**-874**	**3 051**

5.8 Appropriations

EUR thousand	2018	2017
Depreciation difference	509	1 999
Group contributions, income	64 000	63 500
Group contributions, expense	-3 600	-1 500
Total	**60 909**	**63 999**

5.9 Income taxes

EUR thousand	2018	2017
Tax on income from operations	-13 811	-10 557
Tax for previous accounting periods	-4	0
Change in deferred taxes	-	-107
Total	**-13 815**	**-10 663**

6. Notes to the balance sheet

6.1 Intangible assets

Other immaterial rights

EUR thousand	2018	2017
Cost at 1 Jan	35 996	36 112
Additions	30 704	0
Disposals, business combinations	-	-115
Cost at 31 Dec	**66 701**	**35 996**
Accumulated depreciation at 1 Jan	-14 739	-11 482
Depreciation for the year	-3 624	-3 373
Accumulated depreciation, business combinations	-	115
Accumulated depreciation at 31 Dec	**-18 363**	**-14 739**
Carrying amount at December 31	**48 338**	**21 257**

Other capitalised expenditure

EUR thousand	2018	2017
Cost at 1 Jan	35 217	34 265
Additions	2 883	2 001
Disposals	-757	-
Disposals, business combinations	-	-1 499
Transfers between items	3 001	450
Cost at 31 Dec	**40 344**	**35 217**
Accumulated depreciation at Jan	-27 674	-24 746
Depreciation for the year	-4 787	-4 057
Accumulated depreciation, business combinations	-	1 129
Depreciation on disposals	272	-
Accumulated depreciation at 31 Dec	**-32 189**	**-27 674**
Carrying amount at December 31	**8 155**	**7 543**
Total intangible assets	**56 493**	**28 800**

6.2 Tangible assets

Land and water

EUR thousand	2018	2017
Cost at 1 Jan	3 083	3 083
Cost at 31 Dec	**3 083**	**3 083**
Revaluations	8 671	8 671
Carrying amount at December 31	**11 754**	**11 754**

Buildings and structures

EUR thousand	2018	2017
Cost at 1 Jan	17 583	34 158
Additions	-	266
Disposals, business combinations	-	-18 610
Transfers between items	59	1 769
Cost at 31 Dec	**17 642**	**17 583**
Accumulated depreciation at 1 Jan	-1 818	-9 237
Depreciation for the year	-578	-1 235
Accumulated depreciation, business combinations	-	8 654
Accumulated depreciation at 31 Dec	**-2 396**	**-1 818**
Carrying amount at December 31	**15 245**	**15 765**

Machinery and equipment

EUR thousand	2018	2017
Cost at 1 Jan	5 878	47 404
Additions	172	1 242
Disposals, business combinations	-	-45 962
Disposals	-	-263
Transfers between items	-	3 457
Cost at 31 Dec	**6 050**	**5 878**
Accumulated depreciation at 1 Jan	-4 468	-33 913
Depreciation for the year	-360	-2 428
Accumulated depreciation, business combinations	-	31 636
Depreciation on disposals	-	236
Accumulated depreciation at 31 Dec	**-4 828**	**-4 468**
Carrying amount at December 31	**1 222**	**1 410**

Other tangible assets

EUR thousand	2018	2017
Cost at 1 Jan	1 817	2 089
Additions	89	-
Disposals, business combinations	-	-273
Cost at 31 Dec	**1 907**	**1 817**
Accumulated depreciation at 1 Jan	-714	-626
Depreciation for the year	-101	-128
Accumulated depreciation, business combinations	-	41
Accumulated depreciation at 31 Dec	**-815**	**-714**
Carrying amount at December 31	**1 092**	**1 104**

Advance payments and work in progress

EUR thousand	2018	2017
Cost at 1 Jan	3 060	6 541
Additions	997	2 194
Disposals, business combinations	-	-1 108
Transfers between items	-3 060	-4 567
Cost at 31 Dec	**997**	**3 060**
Carrying amount at December 31	**997**	**3 060**
Total tangible assets	**30 310**	**33 092**

6.3 Investments

Shares and holdings in group companies

EUR thousand	2018	2017
Cost at 1 Jan	986 963	900 147
Additions	-	104 451
Disposals	-	-17 635
Cost at 31 Dec	**986 963**	**986 963**
Carrying amount at December 31	**986 963**	**986 963**

Other shares and holdings

EUR thousand	2018	2017
Cost at 1 Jan	3 265	8 352
Disposals	-	-5 087
Cost at 31 Dec	**3 265**	**3 265**
Carrying amount at December 31	**3 265**	**3 265**
Investments total	**990 228**	**990 228**

Subsidiaries	**Ownership (%)**	
	2018	**2017**
Fazer Leipomot Oy	100	100
Fazer Bakeries B.V.	70	70
Fazer Finland Oy	100	100
Fazer Food AB	80	80
Fazer Ravintolat Oy	100	100
Fazer Konfektyr AB	100	100
Fazer Makeiset Oy	100	100
Oy NIS-Nordic Industrial Sales Ab	51	51

6.4 Long term receivables

EUR thousand	2018	2017
Loan receivables from Group companies	1 000	20 549
Total	**1 000**	**20 549**

6.5 Short-term receivables

EUR thousand	2018	2017
Trade receivables	513	434
Receivables from Group companies	209 409	189 563
Other receivables	1 513	2 948
Accruals	2 794	2 987
Total	**214 229**	**195 931**
Receivables from Group companies		
Trade receivables	45 402	34 344
Loan receivables	90 296	87 278
Group contribution	64 000	63 500
Other receivables	2 016	137
Accruals	7 695	4 304
Total	**209 409**	**189 563**
Material items in accruals		
Interest	636	1 497
Other	9 853	5 794
Total	**10 489**	**7 291**

6.6 Financial securities

EUR thousand	2018	2017
Interest funds	-	21 810
Market value total	**-**	**21 810**
Interest funds	-	21 490
Book value total	**-**	**21 490**
Difference	**-**	**319**

The Group disposed of the investments in interest funds during 2018. The proceeds were used to repay part of the outstanding commercial papers.

6.7 Equity

EUR thousand	2018	2017
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	643 231	639 663
Payment of dividends	-60 710	-37 944
Retained earnings 31.12	**582 521**	**601 719**
Profit for the period	51 508	41 512
Non-restricted equity total	**634 029**	**643 231**
Total equity	**760 508**	**769 710**

	2018	2017
Shares	**Number of shares**	**Number of shares**
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.

6.8 Discreationary reserves

EUR thousand	2018	2017
Accumulated depreciation difference	345	854
- unrecognised deferred tax liability	69	171

6.9 Deferred tax liability

EUR thousand	2018	2017
Deferred tax liability at 1 Jan	1 734	1 734
Deferred tax liability at 31 Dec	**1 734**	**1 734**

6.10 Long-term liabilities

EUR thousand	2018	2017
Loans from Group companies	8 781	10 088
Long-term liabilities total	**8 781**	**10 088**

6.11 Short-term liabilities

EUR thousand	2018	2017
Other interest bearing liabilities	12 852	2 252
Trade payables	4 025	3 914
Commercial papers	48 494	59 988
Liabilities to Group companies	473 698	452 308
Other liabilities	5 644	4 727
Accruals	6 195	10 797
Total	**550 908**	**533 987**
Liabilities to Group companies		
Other interest bearing liabilities	441 143	425 279
Trade payables	23 551	23 493
Group contributions	3 600	1 500
Accruals	5 403	2 036
Total	**473 698**	**452 308**
Material items in accruals		
Accrued tax liability	2 083	3 732
Wages, salaries and social expenses	2 919	4 885
Interests	920	1 161
Other	5 676	3 054
Total	**11 598**	**12 833**

7. Collaterals and commitments

Guarantees

Group guarantees EUR thousand	2018	2017
Guarantees	11 825	12 316

Contingent liabilities and other liabilities

Liabilities EUR thousand	2018	2017
Leasing liablities		
Due for payment the following financial period	1 545	1 672
Due for payment later	1 750	1 935
Total	**3 296**	**3 607**
Rental liabilities - due for payment		
Due for payment the following financial period	348	348
Due for payment later	-	-
Total	**348**	**348**

Other contingent liabilities EUR thousand	2018	2017
Energy commitments	6 778	8 287
Others	274	274

Economical liabilities

Real estate investmets

The company has made real estate investments under the Value Added Tax Act, whose revisions and annual auditable amounts are shown below.

2013	2	3
2014	29	35
2016	2 922	3 340
2017	57	65
2018	13	-
Total	**3 024**	**3 442**

EUR thousand	2018	2017
Raw material derivatives		
Current value (included in balance sheet)	-	-
Nominal value	2 495	4 977
Currency derivatives		
Current value (included in balance sheet)	-106	910
Nominal value	126 754	125 232
Hierarchy for the current values		
Currency derivatives, assets		
Included in profit and loss	265	1 227
Raw material derivatives, assets		
Included in profit and loss	53	191
Total	**318**	**1 418**
Currency derivatives, liabilites		
Included in profit and loss	-370	-316
Raw material derivatives, liabilities		
Included in profit and loss	-53	-191
Total	**-423**	**-508**

All financial derivatives belong to group two in the fair value hierarchy. Fair values of the financial derivatives are stated in the notes of the financial statement. Fair value is calculated as a difference between hedged forward rate and rate of the closing date including the effect of the interest rate differential. From outstanding foreign exchange derivatives a valuation net gain of EUR 106 thousand has been booked to profit and loss.

Signatures of the Board of Directors report and financial statements

Vantaa, 20th March 2019

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

Leif Hagelstam
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, 20th March 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Martin Grandell
Authorised Public Accountant