Merger Plan

29 September 2020

for the merger of

Altia Plc and Arcus ASA

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Merger Plan

The Boards of Directors of Arcus ASA ("**Arcus**") and Altia Plc ("**Altia**") propose to the Extraordinary General Meetings of the respective companies that the Extraordinary General Meetings resolve on a merger of Arcus into Altia where all assets, rights and liabilities of Arcus shall be transferred through a statutory cross-border absorption merger without a liquidation procedure to Altia, as set forth in this merger plan (the "**Merger Plan**") (the "**Merger**").

As merger consideration, the shareholders of Arcus shall receive new shares of Altia, in proportion to their existing shareholdings with aggregated fractional entitlements to new shares being sold in public trading on Nasdaq Helsinki Ltd (the "**Helsinki Stock Exchange**") or Oslo Børs for the benefit of the shareholders entitled to such fractions. Arcus shall automatically dissolve as a result of the Merger. However, the Board of Directors of the Recipient Company may at its sole discretion decide to maintain a branch office of the Combined Company in Norway following the dissolution of Arcus.

The Merger shall be carried out in accordance with Chapter 16 of the Finnish Companies Act (624/2006, as amended) (the "**Finnish Companies Act**"), Chapter 13 of the Norwegian Public Limited Liability Companies Act of 13 June 1997 No. 45 (the "**Norwegian Public Companies Act**"), Section 52 a of the Finnish Business Tax Act (360/1968, as amended), and Chapter 11 of the Norwegian Income Tax Act.

1. COMPANIES INVOLVED IN THE MERGER

1.1 Merging Company

Corporate name:	Arcus ASA ("**Arcus**" or the "**Merging Company**")
Business ID:	987 470 569
Corporate form:	Norwegian Public Limited Liability Company (nw. *allmennaksjeselskap*)
Address:	Destilleriveien 11, 1481 Hagan, Norway
Domicile:	Nittedal, Norway
Register authority and its address:	The Norwegian Register of Business Enterprises, Havnegata 48, Brønnøysund, Norway (the "**Norwegian Business Register**")

The Merging Company is a public limited liability company, the shares of which are publicly traded on the official list of Oslo Børs.

1.2 Recipient Company

Corporate name:	Altia Plc ("**Altia**" or the "**Recipient Company**")
Business ID:	1505555-7
Corporate form:	Finnish Public Limited Liability Company (fi. *julkinen osakeyhtiö*)
Address:	Kaapeliaukio 1, 00180 Helsinki, Finland
Domicile:	Helsinki, Finland
Register authority and its address:	Finnish Patent and Registration Office, Sörnäisten rantatie 13 C, FI-00530 Helsinki, Finland (the "**Finnish Trade Register**")

The Recipient Company is a public limited liability company, the shares of which are publicly traded on the official list of the Helsinki Stock Exchange.

The Merging Company and the Recipient Company are hereinafter individually also referred to as a "**Party**" and jointly referred to as the “**Parties**” or the “**Companies Involved in the Merger**” and the Recipient Company after the Merger is hereinafter referred to as the "**Combined Company**".

1.3 Combined Company

The corporate details of the Combined Company will be as set out above for the Recipient Company, except for the corporate name which shall change to Anora Group Plc. The Combined Company shall have its domicile in Helsinki, Finland, and headquarter functions in Helsinki.

The Combined Company will continue to be listed on the official list of Nasdaq Helsinki. The Parties will seek to ensure that the shares in the Combined Company or depository receipts or interests representing the shares in the Combined Company, as the case may be, will be subject to a secondary listing on the Oslo Børs, in connection with the completion of the Merger or as soon as possible thereafter, for a transitional period of four (4) months from the first day of the secondary listing on the Oslo Børs, after which the shares in the Combined Company (or depository receipts or interests representing the shares in the Combined Company, as the case may be) shall be delisted from the Oslo Børs. The Board of Directors of the Combined Company is instructed to implement the delisting by separate application to the Oslo Børs.

The Combined Company's CEO will be Pekka Tennilä, the current CEO of Altia.

2. REASONS FOR THE MERGER

The Companies Involved in the Merger have on 29 September 2020 entered into an agreement concerning the combination of the business operations of the Companies Involved in the Merger through a statutory cross-border absorption merger of the Merging Company into the Recipient Company in accordance with the Finnish Companies Act, the Norwegian Public Companies Act and this Merger Plan (the "**Combination Agreement**").

The Merger will form a wine and spirits brand house with leading presence across the Nordics with a relevant market presence also in the Baltics. The Combined Company will have a unique portfolio of iconic local, regional and global wine and spirits brands. This, combined with deep consumer insights and strong innovation capabilities will enable the Combined Company to achieve growth and meet changing consumer needs even better. The Combined Company will offer a one-stop shop for customers both in on- and off-trade. Further, its wide distribution presence in the complex Nordic markets and enhanced sales excellence, will make the Combined Company an even more attractive partner.

The transaction will allow the Combined Company to strive for growth and more powerful product launches both in and outside the Nordics. The Combined Company’s attractive brand portfolio has significant export potential. With a strong combined cash flow, the Combined Company will be a competitive Northern European player able to seek further growth also through targeted M&A.

The Merger provides a step-change in scale with expected efficiencies throughout the value chain. It will allow the Combined Company to improve its cost position and seek for additional efficiency gains long term. The transaction will also form more competitive Industrial and Logistics business units through increased internal volumes. The combination targets EBITDA net synergies of around EUR 8-10 million annually, to be achieved through cost synergies in sourcing, manufacturing, logistics and SG&A as well as revenue synergies from home markets and beyond. The companies expect that most of the synergies will be achieved within approximately two years from completion of the Merger. The combination is also expected to create long-term positive effects that will continue to materialise even after this period.

Reference is made to the public announcement of the Merger for further information about its rationale and details.

3. PROPOSAL TO THE GENERAL MEETINGS OF THE MERGING COMPANY AND THE RECIPIENT COMPANY

The Boards of Directors of the Merging Company and the Recipient Company propose to the Extraordinary General Meetings of the respective companies that the Merger according to this Merger Plan is adopted.

The Extraordinary General Meetings of the Merging Company and the Recipient Company resolving on the Merger are expected to be held in November 2020 on the same date.

4. AMENDMENTS TO THE RECIPIENT COMPANY'S ARTICLES OF ASSOCIATION

The current Articles of Association of the Merging Company and the Recipient Company are attached to this Merger Plan as Appendix 1A and Appendix 1B, respectively.

As part of the Merger and the resolutions to be made by the Recipient Company's Extraordinary General Meeting in connection therewith, and effective as from completion of the Merger, the Articles of Association of the Combined Company shall be amended to read as set out in Appendix 1C.

5. BOARD OF DIRECTORS AND REMUNERATION

According to the proposed Articles of Association of the Combined Company, the Combined Company shall have a Board of Directors consisting of a minimum of three (3) and a maximum of eight (8) members. The number of members of the Board of Directors of the Combined Company shall be confirmed and the members of the Board of Directors shall be elected by the Extraordinary General Meeting of the Recipient Company resolving on the Merger. Both decisions shall be conditional upon the registration of the execution of the Merger with the Finnish Trade Register. The term of such members of the Board of Directors shall commence on the date of registration of the execution of the Merger with the Finnish Trade Register (the "**Effective Date**") and shall expire at the end of the Annual General Meeting of the Combined Company in 2022. As part of its approval of the Merger, the Board of Directors of the Recipient Company proposes to the Extraordinary General Meeting of Shareholders a temporary amendment to the Articles of Association to enable the term of such members of the Board of Directors of the Combined Company to expire at the end of the Annual General Meeting of the Combined Company in 2022.

The Shareholders' Nomination Board of the Recipient Company, after consultation with the Nomination Committee of the Merging Company, proposes to the Extraordinary General Meeting of the Recipient Company resolving on the Merger that the Board of Directors of the Combined Company shall consist of eight (8) members elected by the shareholders and that: Michael Holm Johansen, current member of the board of Arcus, be conditionally elected as the Chairman of the Board of Directors of the Combined Company, that Sanna Suvanto-Harsaae, current member of the board of Altia, be conditionally elected as the Vice Chairman of the Board of Directors of the Combined Company, that Jyrki Mäki-Kala and Torsten Steenholt, each a current member of the Board of Directors of the Recipient Company, be conditionally elected to continue to serve on the Board of Directors of the Combined Company, that Kirsten Ægidius, Ingeborg Flønes and Nils Selte, each a current member of the Board of Directors of the Merging Company, be conditionally elected as new members of the Board of Directors of the Combined Company, and that Sinikka Mustakari be conditionally elected as a new member of the Board of Directors of the Combined Company, all for the term commencing on the Effective Date and expiring at the end of the Annual General Meeting of the Combined Company in 2022.

In addition, the Merging Company and the Recipient Company will comply with the rules for arranging employee participation in connection with a statutory cross-border merger as described in Clause 12, which may include arrangements to have employee representatives on the Board of Directors of the Combined Company.

The Shareholders' Nomination Board of the Recipient Company, after consultation with the Nomination Committee of the Merging Company, proposes to the Extraordinary General Meeting of the Recipient Company resolving on the Merger that the remuneration payable to the members conditionally elected as members of the Board of Directors of the Combined Company would be in line with the resolutions of the Annual General Meeting of Altia held on 4 June 2020. The annual remuneration of the members conditionally elected to the Board of Directors of the Combined Company shall be paid in proportion to the length of their term in office. The remuneration of the members of the Board of Directors potentially nominated by the employees as employee representatives shall be determined by the Board of Directors separately but will not in any event exceed the remuneration of the other members of the

Board of Directors. The term of the members of the Board of Directors of the Recipient Company not conditionally elected to continue to serve on the Board of Directors of the Combined Company for the term commencing on the Effective Date shall end on the Effective Date.

The term of the members of the Board of Directors of the Merging Company shall end on the Effective Date.

The Shareholders’ Nomination Board of the Recipient Company, after consultation with the Nomination Committee of the Merging Company, may amend the above-mentioned proposal concerning the election of members of the Board of Directors of the Combined Company, in case one or more of the above-mentioned persons would not be available for election at the Extraordinary General Meeting of the Recipient Company resolving on the Merger.

The Board of Directors of the Recipient Company, after consultation with the Shareholders’ Nomination Board of the Recipient Company and the Nomination Committee of the Merging Company, may as necessary convene a General Meeting of Shareholders after the Extraordinary General Meeting of the Recipient Company resolving on the Merger to resolve to supplement or amend the composition of the Board of Directors of the Combined Company or their remuneration prior to the Effective Date, in case a conditionally elected member of the Board of Directors of the Combined Company dies, resigns or for any other reason has to be replaced by another person or their remuneration be amended for some other reason.

As part of its approval of the Merger, the Shareholders' Nomination Board of the Recipient Company proposes to the Extraordinary General Meeting of Shareholders a temporary deviation from the Charter of the Recipient Company's Shareholders' Nomination Board to the effect that, should the Effective Date be later than 1 June 2021, the members of the Shareholders' Nomination Board of the Combined Company will be determined based on the three (3) largest shareholders in the Combined Company on the tenth business day following the Effective Date.

6. EXCHANGE RATIO

The Merger is based on an exchange ratio reflecting a relative value of Altia and Arcus of 53.5 : 46.5 (the "**Exchange Ratio**"), in addition to which an extra dividend in the maximum total amount of EUR 0.40 per share in Altia (corresponding to approximately EUR 14,456,194 million) will be paid to Altia's shareholders before the Merger is completed (the extra dividend is in addition to the dividend of EUR 0.21 per share authorized by the Annual General Meeting of Altia held on 4 June 2020 (corresponding to approximately EUR 7,589,501.85 million) and payable before the end of 2020).

The Exchange Ratio has been determined based on the assessed relative valuations of the Merging Company and the Recipient Company, applying generally used valuation methods, including market-based valuations and profitability contributions of the Companies Involved in the Merger.

Based on their respective relative value determinations, supported by fairness opinions obtained by the Boards of Directors of the Merging Company and the Recipient Company from their respective financial advisors, each of the Boards of Directors of the Merging Company and the Recipient Company, respectively, have concluded that the valuations and the Exchange Ratio are fair and that the Merger and the Merger Consideration are in the best interest of the Merging Company and the Recipient Company, respectively, and in the best interest of their respective shareholders.

7. MERGER CONSIDERATION

7.1 Merger Consideration

The shareholders of the Merging Company shall receive as merger consideration 0.4618 new shares of the Combined Company (the "**Consideration Shares**") for each share owned in the Merging Company per each individual book-entry account (the "**Merger Consideration**"). The Consideration Shares shall be issued to the shareholders of the Merging Company in proportion to their shareholding in the Merging Company at a record date to be set in connection with completion of the Merger.

No Consideration Shares will be issued with respect to shares in the Merging Company held by the Merging Company itself or by the Recipient Company.

On the date of this Merger Plan, the number of issued and outstanding shares in the Merging Company is 68,023,255, which includes 6,948 treasury shares. Based on the situation on the date of this Merger Plan and the agreed Exchange Ratio, the total number of shares in the Recipient Company to be issued as Merger Consideration would therefore be 31,409,930 shares.

There is only one share class in the Recipient Company, and the shares of the Recipient Company do not have a nominal value.

In case the number of shares received by a shareholder of the Merging Company (per each individual book-entry account as Merger Consideration is a fractional number, the fractions shall be rounded down to the nearest whole share for the purpose of determining the number of Consideration Shares to be received by the relevant shareholder. Fractional entitlements to new shares of the Combined Company shall be aggregated and sold in public trading on the Helsinki Stock Exchange or the Oslo Børs and the proceeds shall be distributed to shareholders of the Merging Company entitled to receive such fractional entitlements in proportion to their holding of such fractional entitlements. Any costs related to the sale and distribution of fractional entitlements shall be borne by the Recipient Company.

With the exception of proceeds from the sale of possible fractional entitlements, no other cash consideration will be paid in connection with the Merger.

7.2 Allocation of the Merger Consideration

The allocation of the Merger Consideration will be based on the shareholding in the Merging Company at a record date to be set in connection with completion of the Merger.

The final total number of shares in the Combined Company to be issued as Merger Consideration shall be determined on the basis of the number of shares in the Merging Company held by shareholders of the Merging Company, other than shares held by the Merging Company itself or the Recipient Company, at a record date to be set in connection with completion of the Merger. Such total number of shares to be issued as Merger Consideration shall be rounded down to the nearest full share.

The final number of shares to be issued as Merger Consideration may be affected by, among others, any change concerning the number of shares issued by and outstanding in the Merging Company or held by the Merging Company as treasury shares, e.g., the Merging Company transferring existing treasury shares in accordance with existing share-based incentive plans, prior to the Effective Date.

7.3 Other consideration

Apart from the Merger Consideration and proceeds from the sale of fractional entitlements, all as set forth in this Clause 7 above, no other consideration shall be distributed to the shareholders of the Merging Company.

7.4 Share options and other rights entitling to shares in the Merging Company

The Merging Company has issued certain share options to its senior executives (stock options 2018, stock options 2019 and stock options 2020) (the "**Option Program**"). At the date of this Merger Plan, 1,062,091 stock options 2018, 2,033,802 stock options 2019 and 2,508,879 stock options 2020 remain outstanding and would become vested in April 2021, April 2022 and April 2023, respectively. The stock options have KPI based vesting criteria that have to be fully or partially met in order to be exercisable. The Arcus Board has due to the Merger resolved to terminate the Option Program with effect from completion of the Merger and agreed with the option holders that the option holders shall be compensated with a cash payment following completion of the Merger. Based on the adjustment mechanism applicable to mergers where Arcus is not the surviving entity, the number of outstanding stock options have been reduced so that the number of outstanding stock options at the date of this Merger Plan are no (0) 2018 stock options, 476,437 2019 stock options and 339,163 2020 stock options (the "**Options**"). All of the Options will lapse on completion of the Merger and the option holders will, as compensation, receive an amount of NOK 4.49, NOK 8.71 and NOK 11.06, respectively, for each 2018 stock options, 2019 stock options and 2020 stock options. The total amount of compensation to the option holders will be NOK 7,900,921.

8. DISTRIBUTION OF THE MERGER CONSIDERATION

The Merger Consideration shall be distributed to the shareholders of the Merging Company on the Effective Date or as soon as reasonably possible thereafter.

The Consideration Shares may be delivered in the form of directly held shares in the Combined Company in the book-entry securities system maintained by Euroclear Finland Ltd., depository receipts or depositary interests registered at the Norwegian Central Securities Depository or similar arrangements. The Parties will seek a listing of the Combined Company on the Oslo Børs, and in case of a listing the Combined Company shall facilitate the holding and trading of shares by current shareholders of the Merging Company through VPS registration of depository receipts, depositary interests or similar arrangements as the default option, or, if possible, direct VPS registration of shares in the Combined Company. In the event that the Combined Company's shares, depositary receipts or depositary interests are not listed on the Oslo Børs, the Combined Company shall facilitate and cover the cost of any shareholders of the Merging Company who wish, within (3) months from the Effective Date to switch to holding shares registered in Euroclear Finland Ltd., whether through a nominee structure or other structure generally suitable for the current shareholder base.

The Consideration Shares shall carry full shareholder rights, including rights to dividends, as from the date of their registration with the Finnish Trade Register.

9. OPTION RIGHTS AND OTHER SPECIAL RIGHTS ENTITLING TO SHARES

The shareholders in the Merging Company do not hold any special rights as set out in Section 13-26(2) no. 7 of the Norwegian Public Companies Act or other special rights in the Merging Company. There are no such rights in the Merging Company as set out in Section 11-1, 11-10 and 11-12 (financial instruments) of the Norwegian Public Companies Act or other special rights in the Merging Company, other than certain share options issued to key employees as set out in Clause 7.4 above.

10. SHARE CAPITAL OF THE COMBINED COMPANY

The share capital of the Combined Company shall be increased by EUR 1,019,621.64 in connection with the registration of the execution of the Merger in accordance with the accounting treatment described in Clause 11.

11. DESCRIPTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY OF THE MERGING COMPANY AND OF THE CIRCUMSTANCES RELEVANT TO THEIR VALUATION, OF THE EFFECT OF THE MERGER ON THE BALANCE SHEET OF THE RECIPIENT COMPANY AND OF THE ACCOUNTING TREATMENT TO BE APPLIED IN THE MERGER

In the Merger, all (including known, unknown and conditional) assets, liabilities and responsibilities as well as agreements and commitments and the rights and obligations relating thereto of the Merging Company, and any items that replace or substitute any such item, will transfer to the Recipient Company by operation of law.

The Recipient Company has obtained adequate back-up financing commitments from a recognised lender in connection with the Merger. The Parties shall prior to the execution of the Merger jointly agree upon the steps to be taken with respect to the existing financing arrangements of the Parties, inter alia, with respect to financing arrangements that will transfer to and be continued by the Recipient Company and financing arrangements to be refinanced and/or repaid and cancelled.

The Merger is to be carried out by applying the acquisition method using book values for accounting purposes. The assets and the liabilities in the closing accounts of the Merging Company are recognised at book value in appropriate asset and liability line items in the balance sheet of the Recipient Company in accordance with the Finnish Accounting Act (1336/1997, as amended) and the Finnish Accounting Decree (1339/1997, as amended), except for the items relating to receivables and liabilities between the Recipient Company and the Merging Company; these receivables and liabilities will be extinguished in the Merger.

The equity of the Recipient Company shall be formed in the Merger by applying the acquisition method so that the amount corresponding the book value of the net assets of the Merging Company shall be recorded into reserve for invested unrestricted equity of the Recipient Company with the exception of the increase in share capital as described in Clause 10.

A description of the assets, liabilities and shareholders' equity of the Merging Company and an illustration of the post-Merger indicative balance sheet of the Recipient Company is attached to this Merger Plan as Appendix 2.

The final effects of the Merger on the balance sheet of the Recipient Company will be determined according to the circumstances and the laws and regulations governing the preparation of the financial statements in Finland ("**Finnish Accounting Standards**") at the Effective Date of the Merger.

12. EMPLOYEES' PARTICIPATION IN THE MERGER PROCESS AND LIKELY REPERCUSSIONS OF THE MERGER ON EMPLOYMENT

The employees of the Merging Company shall be transferred to the Recipient Company in connection with the execution of the Merger by operation of law as so-called old employees. The Recipient Company shall assume the obligations arising from the employment and service relationships of the transferring personnel and the related benefits as in force at the Effective Date.

The employees of the subsidiaries and affiliated companies of the Merging Company are not directly affected by the Merger, as their employment relationships will remain with their current employers and not be transferred to a new employer. The position of the CEO of the Merging Company will terminate at the latest upon completion of the Merger. Otherwise no employment or service contracts concluded with the employees of the Merging Company, the Recipient Company, or their subsidiaries or affiliated companies shall terminate due to the transaction.

Any information or consultation obligations, to the extent they may be required pursuant to the applicable laws, regulations and collective bargaining agreements, including but not limited to the Finnish Act on Co-operation within Undertakings (334/2007) and Chapter 16 of the Norwegian Employment Act no62 of 17 June 2005, which implement the Council directive 2001/23/EC of 12 March 2001, shall be complied with. Each Party shall comply with all the statutory requirements relating to the employee transfer and jointly coordinate with the other Party the actions to be taken in relation thereto.

At the date of signing of this Merger Plan, the Recipient Company does not have any employee representatives in the Board of Directors, whereas the Merging Company has three (3) employee representatives in the Board of Directors based on a group scheme comprising the Merging Company's Norwegian subsidiaries and in accordance with applicable law, agreement and a decision by the previous Norwegian Industrial Democracy Board. The Merging Company and the Recipient Company will comply with the rules for arranging employee participation in connection with a statutory cross-border merger, which may include arrangements to have employee representatives on the Board of Directors of the Combined Company.

Since the Combined Company will be domiciled in Finland, it will be subject to the Finnish regulations on employee participation. The Finnish Act on Personnel Representation in the Company Administration (725/1990) and the Finnish Act on Employee Involvement in European Companies (SE) (758/2004) as referred to therein, which implement the directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005, set out the rules for arranging employee participation in connection with a statutory cross-border merger.

In accordance with the aforementioned acts, unless the Parties make a joint decision of applying the so-called standard rules set forth by Section 9b of the Finnish Act on Personnel Representation in the Company Administration and the relevant Sections of the Finnish Act on Employee Involvement in European Companies (SE), the Parties will enter into negotiations with the special negotiating body of the employees regarding the arrangement of employee participation within the Combined Company.

Employee representation in the boards of directors of the subsidiaries of the Companies Involved in the Merger will remain or be established in accordance with the applicable laws and regulations in each jurisdiction.

To the extent workforce reductions or other measures should be considered in the future, there will be separate discussions and/or employee consultations with the Combined Company's employees and/or their representatives in accordance with the applicable laws, regulations and collective bargaining agreements in each jurisdiction.

13. MATTERS OUTSIDE ORDINARY BUSINESS OPERATIONS

From the date of this Merger Plan and until completion of the Merger, each of the Parties shall continue to conduct their operations in the ordinary course of business and in a manner consistent with past practice of the relevant Party, unless the Parties specifically agree otherwise in line with the provisions of the Combination Agreement.

The Board of Directors of the Recipient Company proposes to the Extraordinary General Meeting of the Recipient Company resolving on the Merger that the Board of Directors of the Recipient Company be authorized to resolve on the payment of an extra dividend in the maximum total amount of EUR 0.40 per share, in addition to the authorization by the Annual General Meeting of the Recipient Company held on 4 June 2020 to resolve on a payment of dividend in the maximum total amount of EUR 0.21 per share prior to the end of 2020, to the shareholders of the Recipient Company prior to the Effective Date (in aggregate a maximum total amount of EUR 0.61 per share representing approximately EUR 22,045,695.85, the “**Pre-Completion Dividend**”).

The Board of Directors of the Merging Company intends to propose to the Extraordinary General Meeting of the Merging Company to carry out a change to the Merging Company's corporate structure before completion of the Merger by creating a new holding company, Arcus Holding AS, for the operations of the Arcus group. This reorganisation will be carried out by way of a demerger of Arcus whereby substantially all of the assets, rights and liabilities of Arcus will be transferred to a new company, Arcus NewCo AS, and a parallel tripartite merger of Arcus NewCo AS into Arcus Holding AS, resulting in substantially all of the current assets, rights and liabilities of Arcus being owned by Arcus Holding AS (the "**Reorganisation**"). In order to facilitate for the demerger in the Reorganisation, Arcus will propose to increase the nominal value of each of Arcus' shares from NOK 0.02 to NOK 5.00 by way of a bonus issue (the "**Bonus Issue**"). After completion of the Reorganisation and the Merger, Arcus Holding AS will be a wholly owned subsidiary of the Combined Company serving as a holding company for the former Arcus’ part of the operations of the combined group.

Other than in connection with the Reorganisation and Bonus Issue in the Merging Company, existing option-based incentive plans of the key employees of the Merging Company, the annual share savings programme for employees of the Merging Company, the share-based incentive programme of the Recipient Company, and the distribution of the Pre-Completion Dividend by the Recipient Company to its shareholders, the Merging Company and the Recipient Company shall during the Merger process not resolve on any matters (regardless of whether such matters are ordinary or extraordinary) which would affect the shareholders’ equity or number of outstanding shares in the relevant company, including but not limited to share issues or redemptions, acquisition or disposal of treasury shares, dividend distributions, changes in share capital, or any comparable actions, or take or commit to take any such actions, unless the Parties specifically agree otherwise.

14. CAPITAL LOANS

Neither the Merging Company or the Recipient Company has issued any capital loans, as defined in Chapter 12, Section 1 of the Finnish Companies Act.

15. SHAREHOLDINGS BETWEEN THE MERGING COMPANY AND THE RECIPIENT COMPANY

On the date of this Merger Plan, the Merging Company or its subsidiaries do not own and the Merging Company agrees not to acquire and to cause its subsidiaries not to acquire any shares in the Recipient Company and the Recipient Company does not own and agrees not to acquire and to cause its subsidiaries not to acquire any shares in the Merging Company, unless the Parties specifically agree otherwise in writing.

On the date of this Merger Plan, the Merging Company holds 6,948 treasury shares. Neither of the Companies Involved in the Merger has a parent company.

16. BUSINESS MORTGAGES

On the date of this Merger Plan, there are no business mortgages as defined in the Finnish Act on Business Mortgages (634/1984, as amended) pertaining to the assets of either the Merging Company or the Recipient Company.

17. SPECIAL BENEFITS OR RIGHTS IN CONNECTION WITH THE MERGER

Except as set forth below, no special benefits or rights, each within the meaning of the Finnish Companies Act and the Norwegian Public Companies Act, shall be granted in connection with the Merger to any members of the Board of Directors, the CEOs, or the auditors of either the Merging Company or the Recipient Company, or to the auditors issuing expert statements on this Merger Plan to the Merging Company and the Recipient Company.

The CEO of the Recipient Company is entitled to a transaction bonus in the maximum amount of 70% of his annual base salary and a retention bonus in the maximum amount of 70% of his annual base salary.

The CEO of the Merging Company is entitled to a transaction bonus equivalent to 8.5 months of his fixed base salary and an additional transaction bonus equivalent to 6 months of his fixed base salary upon a successful completion of the Merger. The latter amount will be gradually reduced in the event that the CEO should resign prior to completion of the Merger.

The remuneration of the auditors issuing their statement on this Merger Plan is proposed to be paid in accordance with an invoice approved by the Board of Directors of the Recipient Company and the Board of Directors of the Merging Company, respectively.

18. REGISTRATION OF THE EXECUTION OF THE MERGER AND CONDITIONS FOR SUCH REGISTRATION

Subject to the approval of the required resolutions by the respective Extraordinary General Meetings, each Party, including the Boards of Directors of the Companies Involved in the Merger, undertakes to procure that the necessary resolutions are made and actions taken to facilitate the Merger. Specifically, promptly following the signing date of the Merger Plan the Parties shall:

(a) ensure filing of the Merger Plan with the Norwegian Business Register in accordance with Section 13-25 (2) no. 5, cf. Section 13-13 of the Norwegian Public Companies Act and with the Finnish Trade Register in accordance with Chapter 16 Section 24 of the Finnish Companies Act;

(b) make the Merger Plan available to the Parties' respective shareholders in accordance with the Finnish Companies Act and the Norwegian Public Companies Act respectively; and

(c) convene the Extraordinary General Meetings in the Companies Involved in the Merger for respective approvals of the Merger in accordance with the Merger Plan.

Subject to the conditions set out in Clause 22 of this Merger Plan, the Merger will be executed when the Finnish Trade Register has registered the Merger in the Finnish Trade Register pursuant to Chapter 16, Section 25 of the Finnish Companies Act, whereby the legal consequences of the Merger enter into force pursuant to Chapter 16, Section 27, first paragraph of the Finnish Companies Act. The planned Effective Date, meaning the planned date of registration of the execution of the Merger, is 1 April 2021 (effective registration time approximately at 00:01:01). The planned Effective Date is not binding and the actual Effective Date may be earlier or later than above date.

The Boards of Directors of the Companies Involved in the Merger shall have an obligation to file the notification for the execution of the Merger with the Finnish Trade Register and the Norwegian Business Register without undue delay after all conditions for the Merger set out in Clause 22 of this Merger Plan have been fulfilled or duly waived, with a request to register the Merger.

The Boards of Directors of the Companies Involved in the Merger may jointly resolve not to implement the Merger, both before and after the Extraordinary General Meetings of the Companies Involved in the Merger have resolved upon the Merger.

At the date of registration of completion of the Merger with the Finnish Trade Register all assets, obligations and liabilities of the Merging Company shall be deemed to be transferred to the Combined Company and at the same time the Merging Company shall be dissolved. However, the Board of Directors of the Recipient Company may at its sole discretion decide to maintain a branch office of the Combined Company in Norway following the dissolution of Arcus.

19. MERGER DATE FOR ACCOUNTING PURPOSES

The Merger is expected to be implemented with effect for accounting purposes as from the Effective Date and from the Effective Date the transactions of the Merging Company will be treated for accounting purposes as being those of the Combined Company.

20. FINANCIAL STATEMENTS WHICH HAVE FORMED THE BASIS FOR THE DETERMINATION OF THE TERMS OF THE MERGER

The terms of this Merger are based on the financial statements of the Merging Company as of 31 December 2019, the financial statements of the Recipient Company as of 31 December 2019 and the interim reports of both companies as of 30 June 2020, all of which are attached as Appendix 3A.

The financial statements of the Merging Company are prepared in accordance with the Norwegian Accounting Act of 17 July 1998 number 56 (as amended).The financial statements of the Recipient Company are prepared in accordance with the Finnish Accounting Act (1336/1997, as amended).

The consolidated financial statements of the Companies Involved in the Merger are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements of the Merging Company and the Recipient Company as of 31 December 2018 and 2017, are attached as Appendix 3B.

21. LISTING OF THE NEW SHARES OF THE RECIPIENT COMPANY AND DELISTING OF THE SHARES OF THE MERGING COMPANY

The Recipient Company shall apply for the listing of the Consideration Shares to be issued by the Recipient Company to public trading on the Helsinki Stock Exchange. The Parties will seek to ensure that the shares in the Combined Company or depository receipts or interests representing the shares in the Combined Company, as the case may be, will be subject to a secondary listing on the Oslo Børs in connection with the completion of the Merger or as soon as possible thereafter, for a transitional period of four (4) months from the first day of the secondary listing on the Oslo Børs, after which the shares in the Combined Company (or depository receipts or interests representing the shares in the Combined Company, as the case may be) shall be delisted from the Oslo Børs. The Board of Directors of the Combined Company is instructed to implement the delisting by separate application to the Oslo Børs.

For the purposes of the Merger, the listing of the Consideration Shares, and the secondary listing on the Oslo Børs, a merger prospectus will be published by the Recipient Company before the Extraordinary General Meetings of the Recipient Company and the Merging Company, respectively, resolving on the Merger. The listing of and trading in the Consideration Shares shall begin on the Effective Date or as soon as reasonably possible thereafter.

The trading in the shares of the Merging Company on Oslo Børs is expected to end at the end of the last trading day preceding the Effective Date and the shares in the Merging Company are expected to cease to be listed on Oslo Børs as of the Effective Date, at the latest.

22. CONDITIONS FOR EXECUTING THE MERGER

Completion of the Merger is for each of the Companies Involved in the Merger conditional only upon the fulfilment or, to the extent permitted by applicable law, waiver of the following conditions:

(a) approval of the Merger at the Extraordinary General Meetings of the Companies Involved in the Merger;

(b) approval of the Pre-Completion Dividend to the shareholders of the Recipient Company and such distribution having been executed;

(c) competition approvals and regulatory approvals having been obtained in accordance with the Combination Agreement;

(d) the Recipient Company having obtained written confirmations from Helsinki Stock Exchange that listing of the Consideration Shares will take place promptly upon the completion of the Merger;

(e) the financing required in connection with the Merger being available materially in accordance with the post-Completion financing arrangements as further regulated under the Combination Agreement;

(f) no event of default under any arrangement in respect of financial indebtedness of either Party having occurred and is continuing or is reasonably likely to occur as a result of the completion, if such event of default would, in the opinion of the Boards of Directors of both Parties acting in good faith, be reasonably expected to have a material adverse effect on the Combined Company;

(g) no material adverse effect having occurred on or after the date of signing of the Combination Agreement (the "**Signing Date**") or neither of the Companies Involved in the Merger having, on or after the Signing Date, received information on a material adverse effect having occurred prior to the Signing Date and previously undisclosed to it;

(h) the Parties having in all material respects complied with their respective covenants and obligations included in the Combination Agreement, including having satisfied all their obligations to fulfil the statutory requirements for the Merger and the completion under the Finnish Companies Act and the Norwegian Public Companies Act; and

(i) the Combination Agreement remaining in force and not having been terminated.

Each of the Boards of Directors in the Companies Involved in the Merger has the right to, in their sole discretion and without approval from the Extraordinary General Meeting, to the extent permitted by applicable law, to waive any of the conditions for completion set out above on behalf of the Merging Company and the Recipient Company, respectively.

Furthermore, the Combination Agreement may be terminated with immediate effect prior to completion of the Merger only as follows:

(a) by mutual written consent duly authorised by the Boards of Directors of the Companies Involved in the Merger;

(b) by either Party if (a) the conditions for completion of the Merger have not been fulfilled by the long stop date as set out in the Combination Agreement or (b) it becomes evident (including, without limitation, due to a material adverse effect incapable of being cured occurring, appearing or being disclosed to the other Party after the Signing Date or due to a Party failing to fulfil any of its undertakings or obligations resulting in the failure of the completion) that the Completion cannot take place by the long stop date regardless of any possible course of action by the Parties, provided, however, that the right in (a) and (b) to terminate is not available to the Party whose failure to fulfil any undertaking or obligation under the Combination Agreement has resulted in the completion not occurring by such date;

(c) by either Party, if either or both of the respective Extraordinary General Meetings of the Companies Involved in the Merger have not considered the resolutions regarding approval of the Merger within four months of the registration of the Merger Plan with the Finnish Trade Register or if, upon consideration by the Extraordinary General Meetings, they have failed to be duly approved;

(d) by either Party if any governmental entity (including, but not limited to, any competition authority) shall have given an order or taken any regulatory action that is non-appealable and conclusively prohibits the effecting of the completion; and

(e) by the non-breaching Party upon a breach by the other Party of any representation and warranty given under the Combination Agreement, provided that such breach has resulted, or could reasonably be expected to result, in a material adverse effect as regulated under the Combination Agreement.

23. AUXILIARY TRADE NAMES

In connection with the execution of the Merger, the auxiliary trade names set out in Appendix 4 are registered for the Combined Company.

24. MERGER REPORT

The Boards of Directors of the Companies Involved in the Merger shall prepare a merger report in accordance with Section 13-27 of the Norwegian Public Companies Act and Chapter 16, Section 22 of the Finnish Companies Act.

25. LANGUAGE VERSIONS

This Merger Plan has been prepared and executed in English. The Parties shall prepare Finnish and Norwegian translations. Should any discrepancies exist between the English, Finnish and Norwegian versions, the English version shall prevail.

26. OTHER ISSUES

Upon resolving the Merger Plan, the General Meetings grant the Boards of Directors of the Merging Company and the Recipient Company authorisation to jointly complete any minor amendments in the Merger Plan if this does not cause any harm or disadvantage for the companies, their creditors or the shareholders.

This Merger Plan is governed by and construed in accordance with Norwegian and Finnish law, as applicable, without giving effect to any choice or conflict of law provision or rule (whether of Norway, Finland or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than Norway or Finland.

Any dispute, controversy or claim between the Parties arising out of or relating to this Merger Plan shall be finally settled by arbitration in accordance with the Arbitration Rules of the Finland Chamber of Commerce. The number of arbitrators shall be three (3). Altia shall appoint one (1) arbitrator and Arcus shall appoint one (1) arbitrator. In the event of a failure by any Party to appoint such party-appointed arbitrator, the Arbitration Institute of the Finland Chamber of Commerce will make the appointment upon the request of the other Party. The third arbitrator, who will act as chairman of the arbitral tribunal, will be appointed by the Arbitration Institute of the Finland Chamber of Commerce unless the two party-appointed arbitrators reach an agreement on the arbitrator to be appointed as chairman within fourteen (14) days of the appointment of the latter party-appointed arbitrator. The seat of arbitration shall be Helsinki, Finland. The language of the arbitration shall be English.

This Merger Plan has been made in two (2) identical counterparts, one (1) for the Merging Company and one (1) for the Recipient Company.

[*Signature pages follow*]

In Helsinki, on 29 September 2020

ALTIA PLC
Authorized by the Board of Directors of Altia Plc

SANNA SUVANTO-HARSAAE
By:______________________________
Name: Sanna Suvanto-Harsaae
Title: Chairman of the Board of Directors

On 29 September 2020

ARCUS ASA

MICHAEL HOLM JOHANSEN
Michael Holm Johansen
Chairman

LEENA MARIA SAARINEN
Leena Maria Saarinen
Board member

ANN-BETH NINA JOHANNESEN FREUCHEN
Ann-Beth Nina Johannesen Freuchen
Board member

NILS KLOUMANN SELTE
Nils Kloumann Selte
Board member

CARL ERIK HAGEN
Carl Erik Hagen
Board member

INGEBORG FLØNES
Ingeborg Flønes
Board member

KIRSTEN ÆGIDIUS
Kirsten Ægidius
Board member

ERIK HAGEN
Erik Hagen
Board member
(employee representative)

ANN THERESE ELISABETH JACOBSEN
Ann Therese Elisabeth Jacobsen
Board member
(representative)

ANNE-MARIE FLÅTEN
Anne-Marie Flåten
Board member
(employee representative)

Appendices to Merger Plan

Appendix 1A	Current Articles of Association of the Merging Company.
Appendix 1B	Current Articles of Association of the Recipient Company.
Appendix 1C	Draft amended Articles of Association of the Combined Company.
Appendix 2	Description of assets, liabilities and shareholders' equity and valuation of the Merging Company and the preliminary presentation of the balance sheet of the Recipient Company.
Appendix 3A	Financial statements of the Merging Company and the Recipient Company as of 31 December 2019 and the interim reports of both companies as of 30 June 2020.
Appendix 3B	Financial statements of the Merging Company and the Recipient Company as of 31 December 2018 and 2017.
Appendix 4	Auxiliary trade names

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The distribution of this document may be restricted by law and persons into whose possession any document or other information referred to herein comes should inform themselves about and observe any such restrictions. The information contained herein is not for publication or distribution, in whole or in part, directly or indirectly, in or into Australia, Canada, Hong Kong, Japan, South Africa or any other jurisdiction where such publication or distribution would violate applicable laws or rules or would require additional documents to be completed or registered or require any measure to be undertaken in addition to the requirements under Finnish law. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document is not directed to, and is not intended for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Altia is a Finnish company and Arcus is a Norwegian company. The transaction, including the information distributed in connection with the merger and the related shareholder votes, is subject to disclosure, timing and procedural requirements of a non-U.S. country, which are different from those of the United States. The financial information included or referred to in this document has been prepared in accordance with IFRS, which may not be comparable to the accounting standards, financial statements or financial information of U.S. companies or applicable in the United States.

It may be difficult for U.S. shareholders of Arcus to enforce their rights and any claim they may have arising under U.S. federal or state securities laws, since Altia and Arcus are not located in the United States, and all or some of their officers and directors are residents of non-U.S. jurisdictions. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment. U.S. shareholders of Arcus may not be able to sue Altia or Arcus or their respective officers and directors in a non-U.S. court for violations of U.S. laws, including federal securities laws, or at the least it may prove to be difficult to evidence such claims. Further, it may be difficult to compel Altia or Arcus and their affiliates to subject themselves to the jurisdiction of a U.S. court. In addition, there is substantial doubt as to the enforceability in a foreign country in original actions, or in actions for the enforcement of judgments of U.S. courts, based on the civil liability provisions of the U.S. federal securities laws.

This document does not constitute a notice to an EGM or a merger prospectus and as such, does not constitute or form part of and should not be construed as, an offer to sell, or the solicitation or invitation of any offer to buy, acquire or subscribe for, any securities or an inducement to enter into investment activity. Any decision with respect to the proposed merger of Arcus into Altia should be made solely on the basis of information to be contained in the actual notices to the EGM of Arcus and Altia, as applicable, and the merger prospectus related to the merger as well as on an independent analysis of the information contained therein. You should consult the merger prospectus for more complete information about Altia, Arcus, their respective subsidiaries, their respective securities and the merger.

No part of this document, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. The information contained in this document has not been independently verified. No representation, warranty or undertaking, expressed or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or the opinions contained herein. Neither Altia nor Arcus, nor any of their respective affiliates, advisors or representatives or any other person, shall have any liability whatsoever (in negligence or otherwise) for any loss however arising from any use of this document or its contents or otherwise arising in connection with this document. Each person must rely on their own examination and analysis of Altia, Arcus, their respective securities and the merger, including the merits and risks involved. The transaction may have tax consequences for Arcus shareholders, who should seek their own tax advice.

The securities referred to in this document have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States (as such term is defined in Regulation S under the U.S. Securities Act) and may not be offered, sold or delivered, directly or indirectly, in or into the United States absent registration, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable state and other securities laws of the United States. This document does not constitute an offer to sell or solicitation of an offer to buy any of the shares in the United States. Any offer or sale of new Altia shares made in the United States in connection with the merger may be made pursuant to the exemption from the registration requirements of the U.S. Securities Act provided by Rule 802 thereunder.

The new shares in Altia have not been and will not be listed on a U.S. securities exchange or quoted on any inter-dealer quotation system in the United States. Neither Altia nor Arcus intends to take any action to facilitate a market in the new shares in Altia in the United States.

The new shares in Altia have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other regulatory authority in the United States, nor have any of the foregoing authorities passed comment upon, or endorsed the merit of, the merger or the accuracy or the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Appendix 1A

Current Articles of Association of the Merging Company

ARTICLES OF ASSOCIATION

for

Arcus ASA

(As last amended 29 November 2016)

§ 1

The business name of the company is Arcus ASA. The company is a public limited liability company.

§ 2

The registered office of the company is located in the municipality of Nittedal. General meetings can also be held in the municipality of Oslo.

§ 3

The company's purpose is to operate, import, export, production, storage and distribution of alcoholic beverages and other goods, and other business activities in connection therewith, including participation in other companies engaged in such activities.

§ 4

The company's share capital is NOK 1,360,465.10 divided on 68,023,255 shares, each with a nominal value of NOK 0.02. The shares shall be registered in the Norwegian Central Securities Depository (VPS).

§ 5

The board of directors of the company shall consist of at least three, but no more than eight shareholder-elected board members, as adopted by the general meeting. In addition, board members are elected by and among the employees in accordance with applicable company legislation.

§ 6

The authority to sign on behalf of the company is held by the chairman of the board alone or two board members jointly.

§ 7

The annual general meeting shall discuss and decide upon the following:

1) Approval of the annual accounts and annual report, including distribution of dividend.

2) Other matters that according to law or the articles of association are to be decided upon by the general meeting.

When documents concerning matters to be discussed at general meetings in the company have been made available to the shareholders on the company's web pages, the board of directors may decide that the documents shall not be sent to the shareholders. If so, a shareholder may demand that documents concerning matters to be discussed at the general meeting be sent to him or her. The company cannot demand any form of compensation for sending the documents to the shareholders.

Shareholders may cast a written vote in advance in matters to be discussed at the general meetings of the company. Such votes may also be cast through electronic communication. The access to cast votes in advance is subject to the presence of a safe method of authenticating the sender. The board of directors decides whether such a method exists before each individual general meeting. The notice of general meeting must state whether votes in advance are permitted and which guidelines, if any, that have been issued for such voting.

The notice of general meeting may state that shareholders wanting to attend the general meeting must notify the company thereof within a certain period. This period cannot expire sooner than five days before the meeting.

§ 8

The company shall have a nomination committee consisting of three members. The members of the nomination committee shall be shareholders or representatives of shareholders. The members of the nomination committee, including its chairman, are elected by the general meeting. The members of the nomination committee's period of service shall be two years unless the general meeting decides otherwise. The period of service commences from the time of being elected unless otherwise decided. It terminates at the end of the annual general meeting of the year in which the period of service expires. Even if the period of service has expired, the member must remain in his or her position until a new member has been elected. The members of the nomination committee's fees shall be determined by the general meeting.

The nomination committee shall have the following responsibilities:

(I) To give the general meeting its recommendations regarding the election of board members to be elected by the shareholders

(II) To give the general meeting its recommendations regarding the board members' fees

(III) To give the general meeting its recommendations regarding the election of members of the nomination committee

(IV) To give the general meeting its recommendations regarding the members of the nomination committee's fees.

The general meeting may issue further guidelines for the nomination committee's work.

Appendix 1B

Current Articles of Association of the Recipient Company

Altia Plc’s Articles of Association

1 Company name and registered office

The company’s name is Altia Oyj in Finnish, Altia Abp in Swedish, and Altia Plc in English.

The company’s registered office is situated in Helsinki, Finland.

2 Company’s line of business

The company’s line of business is to by itself or through the group companies engage in 1. the manufacture, import, and sale of alcoholic beverages and products with an alcohol base; 2. the manufacture, import, and sale of other drinks; 3. the manufacture, import, and sale of ethanol and products with an ethanol base; 4. the manufacture and sale of other biotechnical and cosmetic, toiletry and detergent products; 5. the manufacture and sale of agricultural food and feed component; 6. the manufacture and sale of products made of renewable resources; 7. the training related to these industries, as well as the sale of the technology and the planning and laboratory services. The Company may own and possess real estate and securities.

3 Shares

The shares of the Company belong to the book-entry securities system.

4 Company’s board of directors

The company’s Board of Directors shall comprise a minimum of three (3) and a maximum of eight (8) members. The Chairman, Vice Chairman, and other members of the Board of Directors are elected by the General Meeting, which also decides on their remuneration. The term of office of the members of the Board of Directors will expire at the end of the first Annual General Meeting following the election.

Should a Chairman or Vice Chairman of the Board of Directors resign or become otherwise unable to act as Chairman or Vice Chairman during their term of office, the Board of Directors shall have the right to elect a new Chairman or Vice Chairman from among its members for the remaining term of office.

The Board of Directors constitutes a quorum when more than half of the members of the Board of Directors are present at the meeting.

5 Chief executive officer (ceo)

The company has a CEO elected by the Board of Directors.

6 Company representation

The company is represented by the members of the Board of Directors and the CEO two together. The Board of Directors may authorise other designated persons to represent the company together with a board member or another person authorised to represent the company.

The Board of Directors may also grant rights of procuration.

7 Company’s financial year

The company’s financial year is the calendar year.

8 Company auditors

The company shall have one (1) auditor, which shall be an approved auditing firm. The auditor’s term shall cover the financial year. The term of office of the auditor shall end at the end of the first Annual General Meeting following the election.

9 Notice to the general meeting

General Meetings shall be convened by publishing a notice to the meeting on the company’s website not more than three (3) months and not less than three (3) weeks before the date of the General Meeting, however, at least nine (9) days before the record date of the General Meeting as provided by the Finnish Companies Act.

10 Right to attend the general meeting

A shareholder wishing to attend a General Meeting shall notify the company by the date mentioned in the notice to the meeting, which may not be more than ten (10) days before the meeting.

11 Annual general meeting

The Annual General Meeting must be held annually within six (6) months from the end of the financial year on the date specified by the Board of Directors.

The General Meeting shall present:

1. financial statements, which includes parent company's profit and loss account, balance sheet, and notes, as well as the consolidated financial statements and the Board of Directors' report;

2. the auditor's report;

shall decide on:

1. the adoption of the financial statements;

2. the use of the profit shown on the balance sheet;

3. the discharge from liability to the members of the Board of Directors and the CEO;

4. the adoption of the remuneration policy, when necessary;

5. the adoption of the remuneration report;

6. the number of the members of the Board of Directors, as well as the remuneration payable to the members of the Board of Directors and the auditor and;

shall elect:

1. a Chairman and Vice Chairman of the Board of Directors and other members of the Board of Directors;

2. an auditor;

shall deal with:

1. any matters notified by the shareholders in the manner provided for in Section 5 of Chapter 5 of the Finnish Limited Liability Companies Act; and

2. other matters listed in the meeting notice.

Appendix 1C

Draft amended Articles of Association of the Combined Company.

Anora Group Plc’s Articles of Association

1 Company name and registered office

The company’s name is Anora Group Oyj in Finnish, Anora Group Abp in Swedish, and Anora Group Plc in English.

The company’s registered office is situated in Helsinki, Finland.

2 Company’s line of business

The company’s line of business is to by itself or through the group companies or joint ventures engage in 1. the manufacture, import, export, storage, and sale of (a) non-alcoholic and alcoholic beverages and (b) starch, ethanol and ethanol-based products; 2. the manufacture and sale of other petrochemical and biotechnical components and products, agricultural food and feed components and products, and products made of renewable resources; 3. services and training related to these businesses; and 4. other business activities in connection therewith. The Company may own and possess real estate and securities.

3 Shares

The shares of the Company belong to the book-entry securities system.

4 Company’s Board of Directors

The company’s Board of Directors shall comprise a minimum of three (3) and a maximum of eight (8) members. The Chairman, Vice Chairman, and other members of the Board of Directors are elected by the General Meeting, which also decides on their remuneration. The term of office of the members of the Board of Directors will expire at the end of the first Annual General Meeting following the election. However, the term of office of the members of the Board of Directors conditionally elected at the Extraordinary General Meeting held in 2020 will expire at the end of the Annual General Meeting held in 2022.

Should a Chairman or Vice Chairman of the Board of Directors resign or become otherwise unable to act as Chairman or Vice Chairman during their term of office, the Board of Directors shall have the right to elect a new Chairman or Vice Chairman from among its members for the remaining term of office.

The Board of Directors constitutes a quorum when more than half of the members of the Board of Directors are present at the meeting.

5 Chief executive officer (CEO)

The company has a CEO elected by the Board of Directors.

6 Company representation

The company is represented by the members of the Board of Directors and the CEO two together. The Board of Directors may authorise other designated persons to represent the company together with a board member, the CEO, or another person authorised to represent the company.

The Board of Directors may also grant rights of procuration.

7 Company’s financial year

The company’s financial year is the calendar year.

8 Company auditors

The company shall have one (1) auditor, which shall be an approved auditing firm. The auditor’s term shall cover the financial year. The term of office of the auditor shall end at the end of the first Annual General Meeting following the election.

9 Notice to the general meeting

General Meetings shall be convened by publishing a notice to the meeting on the company's website not more than three (3) months and not less than three (3) weeks before the date of the General Meeting, however, at least nine (9) days before the record date of the General Meeting as provided by the Finnish Companies Act.

10 Right to attend the general meeting

A shareholder wishing to attend a General Meeting shall notify the company by the date mentioned in the notice to the meeting, which may not be more than ten (10) days before the meeting.

11 Annual general meeting

The Annual General Meeting must be held annually within six (6) months from the end of the financial year on the date specified by the Board of Directors.

The Annual General Meeting shall present:

1. financial statements, which includes parent company's profit and loss account, balance sheet, and notes, as well as the consolidated financial statements and the Board of Directors' report;

2. the auditor's report;

shall decide on:

1. the adoption of the financial statements;

2. the use of the profit shown on the balance sheet;

3. the discharge from liability to the members of the Board of Directors and the CEO;

4. the adoption of the remuneration policy, when necessary;

5. the adoption of the remuneration report;

6. the number of the members of the Board of Directors, as well as the remuneration payable to the members of the Board of Directors and the auditor and;

shall elect:

1. a Chairman and Vice Chairman of the Board of Directors and other members of the Board of Directors;

2. an auditor;

shall deal with:

1. any matters notified by the shareholders in the manner provided for in Section 5 of Chapter 5 of the Finnish Limited Liability Companies Act;

2. and other matters listed in the meeting notice.

Notwithstanding the aforesaid in this Article 11, the Annual General Meeting to be held in 2021 shall decide on the number of the members of the Board of Directors and remuneration payable to the members of the Board of Directors and elect the Chairman and Vice Chairman of the Board of Directors and other members of the Board of Directors only if the term of office of the members of the Board of Directors conditionally elected at the Extraordinary General Meeting held in 2020 has not yet begun.

Appendix 2 **Description of assets, liabilities and shareholders' equity and valuation of the Merging Company and the preliminary presentation of the Merger balance sheet of the Recipient Company**

The following Recipient Company's Merger Balance sheet illustrates the combination of Altia's balance sheet as at 30 June 2020 and Illustrative balance sheet of Arcus after the Reorganisation and application of the acquisition method as defined under Finnish Accounting Standards using book values for the recording of the Merger. The Merging Company's balance sheet information has been aligned with Altia's Accounting principles. The final effects of the Merger on the balance sheet of the Recipient Company will be determined according to the balance sheet position and the Finnish Accounting Standards in force as per the Effective Date.

In EUR million	Recipient Company before Merger[1)]	Merging Company after Reorganisation[2)]		Preliminary Merger adjustments[3)]	Note	Recipient Company's Merger Balance Sheet
ASSETS						
Non-current assets						
Intangible assets	16					16
Tangible assets	50					50
Investments total	206	52				258
TOTAL NON-CURRENT ASSETS	**272**	**52**				**324**
Current assets						
Inventories total	46					46
Non-current receivables	14	0				14
Current receivables	33	12				45
Cash at hand and in banks	100	0				100
TOTAL CURRENT ASSETS	**193**	**12**				**205**
TOTAL ASSETS	**465**	**64**				**529**
EQUITY AND LIABILITIES						
Equity						
Share capital	60	31		-30	3a)	62
Share premium		19		-19	3a)	0
Invested unrestricted equity fund	1			51	3a)	52
Hedge reserve	-1					-1
Retained earnings and profit for the period	95	2		-24	3a),3b)	73
TOTAL EQUITY	**156**	**52**		**-22**		**186**
Appropriations						
Depreciation difference	19					19
Provisions						
Other provisions		0				0
Liabilities						
Non-current liabilities	75	0				75
Current liabilities	215	12	2b)	22	3b)	248
TOTAL LIABILITIES	**290**	**12**		**22**		**324**
TOTAL EQUITY AND LIABILITIES	**465**	**64**		**0**		**529**

1) The Recipient Company's balance sheet before the Merger is derived from the Recipient Company's unaudited balance sheet as at 30 June 2020 prepared in accordance with the Finnish Accounting Standards.

2) The Merging Company's balance sheet after the Reorganisation illustrates the impacts of the intended Reorganisation of the Merging Company as described in the Section 13 of the Merger Plan whereby substantially all of the assets, rights and liabilities of Arcus will be transferred to a new holding company, Arcus NewCo AS, and parallel tripartite merger of Arcus NewCo AS into Arcus Holding AS (a wholly owned subsidiary of Arcus). The Reorganisation will create an inter-company receivable which will be subsequently converted into shares in Arcus Holding AS and recognised in the form of contribution in kind to increase the share capital and share premium in the Merging Company's equity before the Effective Date (resulting in a share capital and share premium in the Merging Company as before the Reorganisation, but after the Bonus Issue). The Merging Company's balance sheet after the Reorganisation has been converted in EUR using NOK exchange rate of 10.912 as at 30 June 2020.

   a. If the Reorganisation would not take place, the assets, rights and liabilities of the Merging Company transferring in the Merger would correspond to the assets, rights and liabilities presented under note 4) below as at the Effective Date with the exception of the potential write down of the most of the remaining deferred tax asset in the balance sheet on the Effective Date.

b. Current liabilities include liabilities relating to dividend payable amounting to EUR 10.3 million (NOK 112.9 million) in the Merging Company which have been paid on 10 July 2020.

3) Preliminary Merger adjustments consist of the following:

a. The equity of the Receiving Company shall be formed in the Merger by applying the acquisition method as defined under Finnish Accounting Standards so that the amount corresponding the book value of the net assets of the Merging Company shall be recorded into reserve for invested unrestricted equity of the Receiving Company with the exception of the increase EUR 1.0 million in share capital as described in Section 10.

b. The Board of Directors of the Recipient Company proposes Pre-Combination Dividend of approximately EUR 22.0 million (as further set out in Section 13 of the Merger Plan) to the shareholders of Altia prior to the Effective Date. In the illustrative Recipient Company's Merger Balance Sheet the equity and the current liabilities have been adjusted for the proposed dividend.

4) The Merging Company's balance sheet before Reorganisation and Merger presented below is derived from the unaudited balance sheet as at 30 June 2020 prepared accordance with the Norwegian Accounting Act (Norwegian GAAP) and converted in EUR using NOK exchange rate of 10.912 as at 30 June 2020 and have been aligned with Altia's Accounting principles.

In EUR million	**Merging Company prior Reorganisation**
ASSETS	
Total non-current assets	132
Total current assets	65
TOTAL ASSETS	**197**
EQUITY AND LIABILITIES	
TOTAL EQUITY	**52**
Provisions	0
Non-current liabilities	0
Current liabilities	145
TOTAL LIABILITIES	**145**
TOTAL EQUITY AND LIABILITIES	**197**

The illustrative Receiving Company's Merger Balance Sheet presented above does not take into account among others the group contributions, dividend payments, except for the dividend payment mentioned in note 3b) above, which may be paid prior to the Effective Date and transaction costs related to the Merger which all could have a significant impact on the Receiving Company's Merger Balance Sheet and the Merging Company's assets and liabilities prior to the Effective Date.

Appendix 3A

Financial statements of the Merging Company and the Recipient Company as of 31 December 2019 and the interim reports of both companies as of 30 June 2020

Report by the Board of Directors

Report by the Board of Directors 2019

Altia is a leading Nordic alcoholic beverage brand company operating in the wine and spirits markets in the Nordic countries, Estonia and Latvia. Altia produces, imports, markets, sells and distributes both own and partner brand beverages. Altia has also production in Cognac, France. Further, Altia exports alcoholic beverages to approximately 30 countries.

In 2019, Altia's net sales in constant currencies grew by 1.5% driven by Scandinavia and Altia Industrial segments. In the monopoly markets, Altia's spirit sales value grew in all three markets: Finland, Sweden and Norway. The growth in wine was driven by a strong performance in Sweden. In the Altia Industrial segment net sales growth was driven by higher prices and good volume development in industrial products. In 2019, Altia's net sales totalled EUR 359.6 million.

In 2019, cash flow was strong and Altia's financial position strengthened further. In line with Altia's dividend policy, the Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.42 per share be paid for the financial year 2019.

KEY RATIOS

	2019	2018	2017
Net sales, EUR million	359.6	357.3	359.0
Comparable EBITDA, EUR million	44.8	40.0	42.4
% of net sales	12.4	11.2	11.8
EBITDA, EUR million	43.1	34.0	40.3
Comparable operating result, EUR million	26.8	25.6	28.2
% of net sales	7.5	7.2	7.8
Operating result, EUR million	25.1	19.7	26.1
Result for the period, EUR million	18.4	15.1	18.3
Earnings per share, EUR	0.51	0.42	0.51
Net debt / comparable EBITDA	0.6	1.2	1.1
Average number of personnel	682	718	762
Comparable EBITDA without IFRS 16 impact, EUR million	41.0	-	-
Net debt/comparable EBITDA without IFRS 16 impact	0.4	-	-

Market development in 2019

Nordic monopoly market

In the Nordic monopolies in 2019, spirits and wine volumes were flat at 0.1%. Sweden is the largest monopoly market and accounts for 39% of spirits and 63% of wine volumes. In 2019, the spirits volumes in the Swedish monopoly exceeded those of the Finnish monopoly. Spirits volumes in the Nordic monopolies grew by 1.0% driven by the good development in Sweden. Wine volumes were flat at -0.1%. The slight decline was driven by the declining wine volumes in Finland.

The table below illustrates the trends in the sales of wine and spirits in the retail monopolies in Finland, Sweden and Norway. The figures are based on sales volumes by litre published by the retail monopolies (Alko, Systembolaget and Vinmonopolet).

Finland

In 2019, the Finnish retail monopoly's spirits and wine sales volumes declined by 2.9% compared with previous year.
Spirits volumes were down by 2.1%. Volumes in the large vodka and spirits ('viina') category were down mainly driven by the unflavoured vodkas. This category is the main reason for the total decline of the spirits category. Grape spirits volumes also continued to decline. Those categories growing were gin, liqueurs and whiskies. Rum volumes were at previous year's level. In wine, volumes were down by 3.2%, with the large red and white wine categories both declining. Growth was seen only in rosé wines, champagne and mild mulled wines (glöggs).

DEVELOPMENT OF WINE AND SPIRITS SALES VOLUMES IN THE NORDIC RETAIL MONOPOLIES

% change compared to previous year	2019	2018
Nordic monopolies in total	**+0.1**	**+0.8**
Spirits	+1.0	-0.5
Wine	-0.1	+0.8
Finland, total sales	**-2.9**	**-3.3**
Spirits	-2.1	-3.6
Wine	-3.2	-3.2
Sweden, total sales	**+1.0**	**+2.1**
Spirits	+3.9	+2.7
Wine	+0.7	+2.0
Norway, total sales	**+0.4**	**+1.5**
Spirits	+1.6	+0.1
Wine	+0.2	+1.7

Source: Based on sales volumes by litre published by Alko, Systembolaget, Vinmonopolet.

Sweden

In 2019, the Swedish retail monopoly's spirits and wine volumes grew by 1.0% compared with previous year.

The spirits category grew by 3.9%. Out of the spirit categories gin, rum, liqueurs, whisky and bitters grew strongly. Vodka and grape spirits show good growth, but aquavit declined. The wine category grew by 0.7%. Red and white wines showed slight growth. Sparkling wine grew strongly with, for example, the new sparkling mulled wine (glögg) contributing to growth. Volumes of rosé wines and traditional glöggs declined (sparkling glöggs are categorised within sparkling wine).

Norway

In 2019, the Norwegian retail monopoly's spirits and wine volumes grew by 0.4% compared with previous year.
Spirits volumes grew by 1.6%. Gin, liqueurs, aquavit, rum, whisky and vodka grew, but grape spirits declined. The wine category was flat at 0.2%. With red and white wines at previous year's level, and rosé wines declining, the slight improvement was driven by growth in sparkling wine.

Strategy and financial targets in 2019

The core of Altia's strategy in 2019 was to deliver profitable growth through the five strategic streams:

- Grow Nordic core brands
- Execute a step change in wines
- Strengthen strategic partnerships
- Channel expansion and development
- Fund and enable growth - Efficiency and performance initiatives.

To support the abovementioned organic strategic streams, Altia has continued an active brand portfolio management, which includes potential selective acquisitions and/or divestments.

Financial targets

Altia has set the following long-term financial targets:

- Comparable EBITDA margin of 15% in the long-term
- Annual net sales growth of 2 per cent over time (CAGR)
- The target is to keep reported net debt in relation to comparable EBITDA below 2.5x in long-term

Dividend policy

Altia pursues an active dividend policy, and the result of the period not considered necessary to grow and develop the Company will be distributed to the shareholders. According to the dividend policy, the Company targets a dividend pay-out ratio of 60% or above of the result for the period.

Key events in 2019

Successful innovations

Annually, Altia launches about 100 innovations and novelties under its own brands. Below is a selection of innovation highlights from 2019.

Altia launched a novelty liqueur, Koskenkorva Ginger in several markets. At the Spirits Business magazine's annual Liqueur Masters, Koskenkorva Ginger won the Master title in the largest category, fruit liqueurs. Altia launched an organic version of Koskenkorva Vodka first on the Swedish on-trade market and later in other markets.

Larsen Cognac saw a new look and feel in 2019. The new range with a premium design was first launched in travel retail. A novelty, Larsen Coopers, was introduced to attract brown spirit drinkers more used to rum and whiskies. Larsen VSOP and Larsen Extra Or were successful at the IWSC 2019.

Altia launched an organic ready-to-drink aquavit cocktail on the Swedish market. This was the first organic aquavit ready-to-drink cocktail in the world, and it was awarded with a Silver medal at the Specialty Masters 2019. Altia further strengthened its partnership with the Swedish premium craft gin distillery Hernö Gin by launching the first product in a collaboration under the O.P. Anderson Aquavit brand.

Altia launched the first ever rum that is distilled and produced in Finland. The dark Rum Ö is distilled in the Smakby distillery in Åland. Rum Ö was successful at the IWSC 2019.

The Blossa glögg range was extended with non- and low-alcoholic and low sugar glöggs for the grocery trade channel, and with a sparkling glögg for the Swedish monopoly.

Altia made a number of low-alcoholic ready-to-drink launches in the Finnish grocery trade channel under the Chill Out, Leijona and Koskenkorva brands.

New strategic partnerships

In May, Altia transferred its Danish domestic market business to Conaxess Trade Beverages. Conaxess Trade Beverages gained exclusive right to the distribution and marketing of Altia's brands in Denmark's domestic market. Altia continues to operate the border trade between Denmark, Sweden and Germany.

In September, Altia announced the investment in the Von Elk Company whereby Altia became a minority shareholder in the company and the exclusive distributor in the Nordic and Baltic region of the innovative and award-winning sparkling glögg, Glöet. Glöet strengthens Altia's brand portfolio and position in the new category of sparkling glöggs.

New exports markets

In 2019, Altia expandend into two new export markets: Ukraine and Slovakia.

Industrial products

In 2019, Altia made good progress in exports of ethanol to customers in the pharmaceuticals and alcoholic beverage industries.

The trend in the paper and paperboard industries to replace fossil-based binding agents with starch has increased the demand for barley starch. Altia has been able to strengthen its position as a starch supplier to the paper and paperboard industry.

Initiatives to reach long-term financial targets

In February, Altia communicated about further initiatives to reach the long-term financial targets. The initiatives focused on sales growth, revenue management, supply chain efficiencies, procurement savings and overall organisational efficiency.

Sustainability roadmap

In December, Altia published its Sustainability Roadmap extending to 2030. The roadmap's key goal is Altia's commitment to carbon-neutral production by 2025.

Financial review

Seasonality

There are substantial seasonal fluctuations in the consumption of alcoholic beverages impacting net sales and cash flow of Altia. The company typically generates large amounts of its revenue and cash flow during the fourth quarter of the year, whereas the first quarter of the year is significantly lower. In addition, excise taxes related to the high season at the end of the year are paid in January, resulting in large cash outflows at the beginning of the year.

Net sales

In 2019, Altia's reported net sales grew by 0.6% to EUR 359.6 (357.3) million. The headwind from the weak SEK continued, and in constant currencies, net sales grew by 1.5% compared to previous year. Net sales growth was driven by the Altia Industrial and Scandinavia segments. Net sales of the Finland & Exports segment declined from previous year.

In 2019, net sales of spirits and wine remained at previous year's level, and in constant currencies growth was 1.5%. Due to partner portfolio changes in other beverages, the overall net sales of beverages were slightly below previous year's level. In constant currencies, net sales of beverages grew by 0.4% from previous year.

Net sales of spirits declined by 2.2% to EUR 121.3 (124.0) million. Altia's spirit sales grew in all monopoly markets, but the decline was driven by exports. The earlier announced business transfer in Denmark impacts comparability of net sales.

Net sales of wine grew by 2.2% to EUR 124.9 (122.2) million. Growth was driven by the Scandinavia segment. In the Finland & Exports segment, wine sales declined following declining wine market volumes.

In Altia Industrial, net sales grew by 4.2% to EUR 110.2 (105.8) million. Growth was driven by price increases following the high barley price and higher volumes in industrial products.

Profitability and result for the period

In 2019, comparable EBITDA, i.e. EBITDA excluding items affecting comparability (IAC), was EUR 44.8 (40.0) million, which is 12.4% (11.2%) of net sales. Comparable EBITDA, without the impact of adopting IFRS 16, was EUR 41.0 million. Items affecting comparability totalled EUR -1.7 (-6.0) million and were mainly related to a closed voluntary pension scheme. Reported EBITDA was EUR 43.1 (34.0) million.

The efficiency initiatives and implemented price adjustments during the year supported

NET SALES BY SEGMENT

EUR million	2019	2018	Change, %
Finland & Exports	128.6	133.8	-3.9
Scandinavia	120.7	117.7	2.6
Altia Industrial	110.2	105.8	4.2
TOTAL	**359.6**	**357.3**	**0.6**

NET SALES BY PRODUCT CATEGORY

EUR million	2019	2018	Change, %
Spirits	121.3	124.0	-2.2
Wine	124.9	122.2	2.2
Other beverages	3.1	5.3	-40.6
Industrial products and services	110.2	105.8	4.2
TOTAL	**359.6**	**357.3**	**0.6**

COMPARABLE EBITDA BY SEGMENT

EUR million	2019	2018
Finland & Exports	20.6	19.2
Scandinavia	12.1	10.1
Altia Industrial	11.4	10.9
Other	0.7*	-0.3
TOTAL	**44.8**	**40.0**
% net sales	12.4	11.2

Other segment: rental costs have been moved under depreciation according to IFRS16 standard.

COMPARABLE EBITDA BY SEGMENT WITHOUT IFRS 16 IMPACT

EUR million	2019	2018
Finland & Exports	20.4	19.2
Scandinavia	11.5	10.1
Altia Industrial	9.6	10.9
Other	-0.5	-0.3
TOTAL	**41.0**	**40.0**
% net sales	11.4	11.2

ITEMS AFFECTING COMPARABILITY

EUR million	2019	2018
Comparable EBITDA	**44.8**	**40.0**
Net gains or losses from business and assets disposals	0.1	0.4
Cost for closure of business operations and restructurings	-0.2	-1.1
Major corporate projects		
Costs related to the closed voluntary pension scheme	-1.6	-0.7
Costs related to a planned stock exchange listing	-	-4.6
Total items affecting comparability	**-1.7**	**-6.0**
EBITDA	**43.1**	**34.0**

the improvement in profitability. Profitability was negatively affected by the increased cost of barley during the first nine months of the year. In addition, the weak SEK impacted profitability negatively during the whole period.

Other operating income amounted to EUR 7.6 (7.4) million, including proceeds of sales of fixed assets of EUR 0.0 (0.5) million; income from the sales of emission allowances of EUR 0.8 (0.4) million; income from the sales of mainly steam, energy and water of EUR 3.4 (3.4) million, and rental income of EUR 1.3 (1.4) million.

Employee benefit expenses totalled EUR 45.9 (49.9) million, including EUR 34.2 (37.9) million in wages and salaries. Of the employee benefit expenses, EUR 1.8 (3.8) million have been classified as items affecting comparability (IAC) in the comparable EBITDA calculation.

Other operating expenses amounted to EUR 65.0 (73.9) million. In addition to efficiency initiatives, the IFRS 16 implementation decreased other operating expenses by EUR 3.8 million in 2019 being reported as depreciations. In 2018, other operating expenses included items affecting comparability, related to the initial public offering, amounting to EUR 2.7 million.

Net financial expenses amounted to EUR 2.2 (2.3) million. The share of profit in associates and income from interests in joint operations totalled EUR 1.6 (1.2) million.

Taxes for the reporting period were EUR 6.2 (3.6) million corresponding to a tax rate of 25.1% (19.1%). The increase in the tax rate is related to a tax provision related to the outcome of the tax audit in France and to Denmark where no deferred tax asset was booked related to the loss from the restucturing in spring 2019.

The result for the period amounted to EUR 18.4 (15.1) million, and earnings per share were EUR 0.51 (0.42).

IMPACT OF IFRS 16 ON SELECTED KEY FIGURES

	2019
Comparable EBITDA, EUR million	44.8
Net debt, EUR million	28.9
Net debt/comparable EBITDA	0.6
Equity ratio, %	37.8
Gearing, %	19.1
Comparable EBITDA without IFRS 16 impact, EUR million	41.0
Net debt without IFRS 16 impact, EUR million	18.4
Net debt/comparable EBITDA, without IFRS 16 impact	0.4
Equity ratio without IFRS 16 impact, %	38.8
Gearing withouth IFRS 16 impact, %	12.1

Impact of IFRS 16

The reporting period 1 January to 31 December 2019 includes the adoption of the IFRS standard as of 1 January 2019.

The IFRS 16 standard had a positive effect of EUR 3.8 million on comparable EBITDA, a negative effect of EUR 3.7 million on depreciation, and a negative effect of EUR 0.1 million on financial expenses. On the consolidated balance sheet on 31 December 2019, the amount of asset items based on rights of use was EUR 10.4 million, the amount of long-term lease liabilities is EUR 7.1 million and the amount of short-term lease liabilities is EUR 3.4 million.

In the cash flow statement, cash payments for the capital portion of the lease liability are presented under financing activities, and the interest portion of the lease liability is presented in cash flows from operating activities. Previously, all operating lease payments were presented in cash flows from operating activities. This had a positive effect of EUR 3.8 million on the Group's cash flows from operating activities and a negative effect of EUR 3.7 million on its cash flows from financing activities in January-December 2019.

Cash flow, balance sheet and investments
In 2019, net cash flow from operations totalled EUR 52.6 (6.5) million. The solid improvement in cash flow is driven by the changes in net working capital. Towards the end of the year, the inventory levels normalised with positive contribution from all segments and across most of the inventory categories with a key contributor being barley. Also accounts receivables improved across the segments and accounts payables improved from optimisation. In addition to net working capital, also the reported result contributed positively to the cash flow from operations as well as the implementation of IFRS 16 standard where the capital portion of the lease liabilities were moved to financing cash flow. Receivables sold amounted to EUR 76.7 (80.2) million at the end of the period.

The Group has a revolving credit facility of EUR 60.0 (60.0) million, of which EUR 0.0 (0.0) million was in use at the end of the reporting period. The nominal value of commercial papers issued amounted to EUR 0.0 (0.0) million at the end of the reporting period. Altia Group's liquidity position was good throughout the review period.

At the end of the reporting period, the Group's net debt amounted to EUR 28.9 (47.4) million. Gearing was 19.1% (31.6%), and the equity ratio was 37.8% (38.4%). The reported net debt to comparable EBITDA ratio was 0.6 (1.2). The implementation of the IFRS 16 standard increased the net debt position by EUR 10.5 million and the net debt to comparable EBITDA ratio would have been 0.4 times without the IFRS 16 implementation.

The total in the consolidated balance sheet was EUR 400.2 (390.4) million at the end of the period.

In 2019, gross capital expenditure totalled EUR 6.8 (7.7) million. Capital expenditure was related to a number of safety and replacement investments, and the development of information systems at the Koskenkorva plant.

BALANCE SHEET KEY FIGURES

	2019	2018
Reported net debt / comparable EBITDA	0.6	1.2
Borrowings, EUR million	82.6	89.4
Net debt, EUR million	28.9	47.4
Equity ratio, %	37.8	38.4
Gearing, %	19.1	31.6
Capital expenditure, EUR million	-6.8	-7.7
Total assets, EUR million	400.2	390.4

Business review

Finland & Exports

The Finland & Exports segment comprises the import, sale and marketing of wines, spirits and other beverages in Finland and the Baltics, as well as exports and travel retail.

EUR million	2019	2018	Change, %
Net sales, EUR million	128.6	133.8	-3.9
Comparable EBITDA, EUR million	20.6	19.2	7.3
Comparable EBITDA, % of net sales	16.0	14.3	
Without IFRS 16 impact:			
Comparable EBITDA, EUR million	20.4	19.2	6.3
Comparable EBITDA, % of net sales	15.8	14.3	
Average number of personnel	89	95	

EUR million	2019	2018	Change, %
Spirits	75.1	78.1	-3.9
Wine	52.5	54.2	-3.1
Other beverages	1.0	1.5	-31.9
TOTAL	**128.6**	**133.8**	**-3.9**

Net sales

In 2019, net sales in the Finland & Exports segment were EUR 128.6 (133.8) million, down by 3.9% from previous year.

In Finland, the overall market volumes in the monopoly channel were lower than previous year. In spirits, the implemented price adjustements have balanced off the lower monopoly volumes, and Altia's spirits sales in value grew. Wine sales have declined following the decline in market volumes. In the grocery trade, sales grew, following new product launches. In the Baltic region, net sales were above previous year's level as a result of good development in both domestic and border trade following excise tax changes at the beginning of H2 2019. Travel retail and exports were below previous year's level. Partner portfolio changes and the lower number of Swedish passengers due to the weak SEK impacted travel retail negatively. Exports of vodka to Russia has continued a good development, while Cognac sales to China continued at a lower level due to last year's pipe-filling. Additionally, the protests in Hong Kong continued to impact local sales. The decline in other beverages is related to partner portfolio changes in 2018.

Comparable EBITDA

In 2019, comparable EBITDA was EUR 20.6 (19.2) million, which equals a comparable EBITDA margin of 16.0% (14.3%). Comparable EBITDA without the IFRS 16 impact was EUR 20.4 (19.2) million, which equals a comparable EBITDA margin of 15.8% (14.3%).

The improvement in profitability compared to previous year is related to an overall improvement in profitability in Finland, including implemented price adjustments, and the good development in the Baltic region. Exports and the decline of wine sales have negatively impacted profitability.

Business events

In June, Altia ran its first sustainability media campaign aimed directly at consumers. The campaign was built around bottle recycling and initially directed to Finland.

Larsen Cognac saw a new look and feel in 2019. During the summer, the new range with a premium design was first launched in travel retail.

In September, Altia announced the investment in the Von Elk Company, whereby Altia became a minority shareholder in the company and the exclusive distributor in the Nordic and Baltic region of the innovative and award-winning sparkling glögg, Glöet. Glöet strengthens Altia's brand portfolio and position in the new category of sparkling glöggs.

In exports, Altia opened two new markets: Ukraine and Slovakia.

Scandinavia

The Scandinavia segment comprises the import, sale and marketing of wines, spirits and other beverages in Sweden, Norway and Denmark.

EUR million	2019	2018	Change, %
Net sales, EUR million	120.7	117.7	2.6
Comparable EBITDA, EUR million	12.1	10.1	19.2
Comparable EBITDA, % of net sales	10.0	8.6	
Without IFRS 16 impact:			
Comparable EBITDA, EUR million	11.5	10.1	13.2
Comparable EBITDA, % of net sales	9.5	8.6	
Average number of personnel	74	85	

EUR million	2019	2018	Change, %
Spirits	46.2	45.9	0.6
Wine	72.4	68.0	6.5
Other beverages	2.1	3.8	-44.0
TOTAL	**120.7**	**117.7**	**2.6**

Net sales

In 2019, the Scandinavia segment's net sales were EUR 120.7 (117.7) million, up by 2.6% from previous year. The weak SEK continued to have a negative impact on reported net sales. In constant currencies, net sales grew by 5.3%.

In Sweden, both spirits and wine sales grew in 2019. In spirits, growth was supported by the growing spirits market volumes, but also by implemented price adjustments and new partners. In wine, the key growth driver is the new partner portfolio from last year and also strong Blossa sales. In Norway, spirits sales have developed positively but this has not offset the negative impact from declining wine sales and partner portfolio changes.

Comparable EBITDA

In 2019, comparable EBITDA was EUR 12.1 (10.1) million, which equals a comparable EBITDA margin of 10.0% (8.6%). Comparable EBITDA without the IFRS 16 impact was EUR 11.5 (10.1) million which equals a comparable EBITDA margin of 9.5% (8.6%).

The improvement in profitability is related to an overall profitability improvement, new partner brands and price adjustments. The weak SEK continued to impact profitability negatively.

Business events

In the second quarter, Altia completed the transfer of the Danish domestic business to Conaxess Trade Beverages. Conaxess Trade Beverages gained the exclusive right to distribute and market Altia brands in Denmark's domestic market.

In May, Altia started its collaboration with Underberg AG in Sweden to further strengthen Altia's position in the bitters market.

During the year, Altia has deepened its collaboration with the Swedish premium craft gin distillery Hernö Gin. As a result, Altia introduced O.P. Anderson Hernö Juniper Cask Finish.

Altia Industrial

The Altia Industrial segment comprises Koskenkorva plant operations, starch, feed component and technical ethanol businesses, as well as contract manufacturing services at Rajamäki. It also includes supply chain operations, i.e. production operations in different countries, customer service, logistics and sourcing.

EUR million	2019	2018	Change, %
Net sales, EUR million	110.2	105.8	4.2
Comparable EBITDA, EUR million	11.4	10.9	4.2
Comparable EBITDA, % of net sales	10.4	10.3	
Without IFRS 16 impact:			
Comparable EBITDA, EUR million	9.6	10.9	-12.1
Comparable EBITDA, % of net sales	8.7	10.3	
Average number of personnel	426	426	

Net sales

In 2019, Altia Industrial's net sales were EUR 110.2 (105.8) million, up by 4.2% from previous year. Growth is driven both by higher prices compared to previous year due to the high cost of barley and volumes. Volume development has been strong in ethanol and feed components.

Comparable EBITDA

In 2019, comparable EBITDA was EUR 11.4 (10.9) million, which equals a comparable EBITDA margin of 10.4% (10.3%). Comparable EBITDA without the IFRS 16 impact was EUR 9.6 (10.9) million, which equals a comparable EBITDA margin of 8.7% (10.3%).

Profitability was negatively impacted by the high cost of barley, Group internal organisational changes, and increased logistics costs in Sweden.

Production volumes and key projects

During 2019, the Rajamäki alcoholic beverage plant in Finland produced 65.8 (64.7) million litres of spirits and wine.

The Koskenkorva plant was running at full capacity during the period and 212 (212) million kilos of grain were used at the plant. The planned maintenance shutdown in August slightly affected the total consumption of grain.

Grain spirit production was 22.2 (22.0) million kilos including technical ethanols, starch production was 65.1 (68.9) million kilos, and feed component production was 65.6 (62.2) million kilos.

During the period, a number of safety and replacement investments were carried out, and a new ERP system at the Industrial products business unit, including the Koskenkorva distillery, was deployed successfully.

In 2019, Altia made good progress in exports of ethanol to customers in the pharmaceuticals and alcoholic beverage industries.

The trend in the paper and paperboard industries to replace fossil-based binding agents with starch has increased the demand for barley starch. Altia was able to strengthen its position as a starch supplier to the paper and paperboard industry.

Research and development activities

The Group's direct research and development expenditure amounted to EUR 2.3 (3.3) million and was related to the product development of alcoholic beverages.

Governance

Corporate Governance and Remuneration Statement

Altia's Corporate Governance Statement and the Remuneration Statement for 2018 were published together with the Report by the Board of Directors on 22 March 2019 and are available on the company website.

Annual General Meeting 2019

Altia's Annual General Meeting (AGM) was held in Helsinki on 15 May 2019. The meeting adopted the financial statements and discharged the members of the Board of Directors and the CEO from liability for the 2018 financial year. The AGM also approved the proposal by the Board of Directors to pay a dividend of EUR 0.38 per share for the 2018 financial year.

Board of Directors and Board Committees

Based on the proposals of the Shareholders' Nomination Board, the AGM approved the number of members of the Board of Directors as seven. The AGM also re-elected Sanna Suvanto-Harsaae as Chairman of the Board, Kai Telanne as Vice Chairman and Kim Henriksson, Tiina Lencioni, Jukka Ohtola and Torsten Steenholt as members of the Board. Anette Rosengren was elected as a new member.

The term for the members of the Board of Directors lasts until the end of the next Annual General Meeting.

Based on the proposal by the Shareholders' Nomination Board, the AGM decided that the remuneration to the members of the Board of Directors during the next term consists of a monthly term of office fee as follows:

- EUR 4 000 per month, Chairman
- EUR 2 500 per month, Vice Chairman
- EUR 2 000 per month, member

In addition to the monthly fee, the members of the Board of Directors receive a meeting fee for the Board of Directors and Board Committee meetings of EUR 600 per meeting for Board members residing in Finland and EUR 1 200 per meeting for Board members residing abroad. Travel expenses are reimbursed in accordance with the company's travel policy.

Altia's Board of Directors held its organising meeting after the Annual General Meeting and elected the members of the Audit and Human Resources Committees as follows:

- Audit Committee: Kim Henriksson (Chairman), Tiina Lencioni and Sanna Suvanto-Harsaae
- Human Resources Committee: Sanna Suvanto-Harsaae (Chairman), Kai Telanne and Jukka Ohtola

The Board of Directors has assessed that all members of the Board of Directors are independent of the company. Furthermore, all members of the Board of Directors, with the exception of Jukka Ohtola, are independent of the company's major shareholders. Jukka Ohtola is a member of the Board of Directors of Valtion Kehitysyhtiö Vake Oy and holds an office in the Ownership Steering Department of the Finnish Prime Minister's Office and is therefore not independent of the company's major shareholders.

Auditor

In accordance with the recommendation by the Audit Committee, the Annual General Meeting 2019 re-elected PricewaterhouseCoopers Oy as the company's auditor for a term ending at the close of the next Annual General Meeting. PricewaterhouseCoopers Oy has informed the company that Authorised Public Accountant Ylva Eriksson will continue as the auditor-in-charge. The meeting decided that the auditor's fees would be paid against an invoice approved by the company.

Shareholders' Nomination Board

In October, Altia announced that its three largest registered shareholders (shareholder register maintained by Euroclear Finland Ltd as per 2 September 2019) have nominated the following representatives to the Shareholders' Nomination Board:

- Pekka Hurtola, the Ownership Steering Department in the Prime Minister's Office
- Hanna Kaskela, Varma Mutual Pension Insurance Company
- Annika Ekman, Ilmarinen Mutual Pension Insurance Company

In its organising meeting on 2 October 2019 the Nomination Board elected Pekka Hurtola as its Chairman. The Chairman of Altia's Board of Directors, Sanna Suvanto-Harsaae acts as an expert member in the Nomination Board.

Group structure

The Group's plan is to simplify its current group structure. The plan is to merge all Altia Oyj's Finnish subsidiaries excluding Oy Wennerco Ab to Altia Oyj and merge all Swedish subsidiaries to Altia Sweden AB. The merger plans have been registered. The mergers are planned to take place on or about 30 April 2020.

Chief Executive Officer and Group Management

Niklas Nylander started as Altia's Chief Financial Officer (CFO) on 1 January 2019. There were no other changes in the Executive Management Team (EMT) during the period. On 31 December 2019, the EMT consisted of the following members:

- Pekka Tennilä, CEO
- Janne Halttunen, SVP, Scandinavia
- Kari Kilpinen, SVP, Finland & Exports
- Kirsi Lehtola, SVP, HR
- Niklas Nylander, CFO
- Kirsi Puntila, SVP, Marketing
- Hannu Tuominen, SVP, Altia Industrial

SECTOR DISTRIBUTION 31 DEC 2019

Sector	Number of shares	% of shares
Public sector	16 052 550	44.4
Financial and insurance corporations	10 281 865	28.4
Households	6 929 009	19.2
Non-financial corporations	1 756 759	4.9
Non-profit institutions	757 763	2.1
Rest of the world	362 539	1.0
TOTAL	**36 140 485**	**100.0**

Source: Euroclear Finland

Altia's share

Altia's shares are listed on the Nasdaq Helsinki. All shares carry one vote and have equal voting rights. The trading code of the shares is "ALTIA", and the ISIN code is FI4000292438.

Share capital and share

At the end of the reporting period, Altia Plc's share capital amounted to EUR 60 480 378.36 and the number of issued shares was 36 140 485.

Shareholders and share trading

At the end of December 2019, Altia had 17 911 registered shareholders, and 8 986 556 shares representing 24.9% of the total number of shares were nominee-registered. During 2019, the highest share price was EUR 8.22 and the lowest EUR 7.08. In total, 5 856 465 shares were traded on Nasdaq Helsinki. The closing price of Altia's share on 30 December 2019 was EUR 8.18, and the market capitalisation was approximately EUR 296 million.

Flagging notifications

In 2019, Altia was informed of the following changes in ownership:

- On 7 February 2019, the State of Finland transferred as an equity contribution-in-kind 13 097 481 shares in Altia Plc to Valtion kehitysyhtiö Vake Oy, which is a company fully owned by the State of Finland and thereby fully controlled by the State of Finland.
- On 7 February 2019, Lazard Asset Management LLC notified of exceeding the threshold of 5% with a holding of 5.34% of which 2.40% are shares with voting rights attached.

Management's ownership

On 31 December 2019, the members of the Board of Directors, the CEO and the members of the Executive Management Team, including their controlled corporations, owned a total of 98 631 shares corresponding to 0.27% of the total number of shares.

DISTRIBUTION BY SIZE OF HOLDING 31 DEC 2019

Number of shares	Number of share-holders	% of share-holders	Number of Shares	% of shares
1-100	5 655	31.6	420 119	1.2
101-500	8 929	49.9	2 274 048	6.3
501-1000	2 056	11.5	1 507 780	4.2
1001-5000	1 058	5.9	2 018 277	5.6
5001-10000	110	0.6	785 671	2.2
10001-50000	72	0.4	1 541 612	4.3
50001-100000	13	0.1	985 100	2.7
100001-500000	11	0.1	2 045 485	5.7
500001-& above	7	0.0	24 562 393	68.0
TOTAL	**17 911**	**100.0**	**36 140 485**	**100.0**

Source: Euroclear Finland

LARGEST SHAREHOLDERS 31 DEC 2019

	Shareholder	Number of shares	% of shares
1	Valtion Kehitysyhtiö Vake Oy	13 097 481	36.2
2	Varma Mutual Pension Insurance Company	1 550 000	4.3
3	Ilmarinen Mutual Pension Insurance Company	973 300	2.7
4	OP-Finland Small Firms Fund	579 516	1.6
5	Veritas Pension Insurance Company Ltd.	420 000	1.2
6	FIM Fenno Sijoitusrahasto	181 931	0.5
7	Mandatum Life Insurance Company Limited	165 076	0.5
8	Säästöpankki Kotimaa	150 000	0.4
9	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	150 000	0.4
10	Säästöpankki Pienyhtiöt	149 424	0.4
TOTAL		**17 416 728**	**48.2**
Nominee-registered shares		8 986 556	24.9

Source: Euroclear Finland

Authorisations, option and share-based incentive programmes
During 2019, Altia did not have share option programmes. Altia's CEO, the members of the Executive Management Team and selected key employees are part of a share based, long-term incentive scheme. Altia did not have authorisations for share repurchases or share issues and did not hold any own shares during the period.

Personnel

In 2019, Altia Group had an average of 682 (718) employees. On 31 December 2019, Altia Group had 632 (678) employees, of whom 381 (402) were in Finland, 110 (114) in Sweden, 4 (19) in Denmark, 21 (28) in Norway, 31 (32) in Latvia, 60 (61) in Estonia, and 25 (22) in France.

In May 2019, Altia transferred the domestic business in Denmark to Conaxess Trade Beverages, and employees working in the business were transferred to Conaxess Trade Beverages as old employees. Implementation of the Scandinavian segment's restructuring was completed. These arrangements aimed to renew ways of working as well as simplifying the organisational structure. The decrease in the number of the Group's personnel was primarily due to reorganisations, non-replacement, or other internal career arrangements. Altia supported the affected employees by offering outplacement or training support.

In 2019, safety culture was boosted by initiating a comprehensive Human Factor programme at the Rajamäki plant. The idea of the programme is to lift the safety culture from individualist to systemic, and therefore enhance an understanding of the requirements of the changing environment. A digital marketing training programme was organised for the marketing organisation, and smart work training programmes were organised for the whole salaried personnel about prioritising and time management. The Altia Tasting personnel survey was conducted in January-February 2019. The survey provided accurate tools for managers to develop their leadership. The key development areas based on the survey were improving leadership skills, making development opportunities more visible and increasing top management visibility.

Incentive programmes

Short-term and long-term incentives
Altia's salaried, senior salaried employees and management participate in an annual performance incentive scheme. The potential annual reward is based on both the Group's and its business units' targets, as well as on personal targets. Rewards are paid either once a year or more frequently as an annual reward or sales bonus. Workers participate in a production bonus system. The production bonuses are based on the targets of each production unit.

Altia's CEO, the members of the Executive Management Team and selected key employees are part of a long-term incentive scheme.

Based on the result for 2019, no annual performance bonuses were paid. Other bonuses totalled EUR 0.5 (0.5) million.

Share-based incentive scheme
Altia's CEO, the members of the Executive Management Team and selected key employees are part of a share-based, long-term incentive scheme. The objectives of the share-based long-term incentive scheme are to align the interests of Altia's management and key employees with those of the Company's shareholders and, thus, to promote shareholder value creation in the long term, and to commit the management and key employees to achieving Altia's strategic targets as well as the retention of Altia's valuable key resources. The scheme complements a balanced incentive structure.

The scheme consists of annually commencing individual performance share plans (PSP), each with a three-year performance period, followed by the payment of the potentially earned share reward. The commencement of each individual plan is subject to a separate Board approval.

The first plan (PSP 2019–2021) commenced in the beginning of 2019 and the potential share reward thereunder will be paid in the spring of 2022, provided that the performance targets set by the Board of Directors are achieved. The potential reward will be paid in listed shares of Altia. Those eligible to participate in the first plan are approximately 20 individuals.

If all the performance targets set for PSP 2019–2021 are fully achieved, the aggregate maximum number of shares to be paid based on this first plan is approximately 250 000 shares.

Sustainability

In 2019, Altia was nominated as one of the most inspiring circular economy companies by Sitra, the Finnish Innovation Fund. Altia was chosen due to the bio and circular economy achievements at the Koskenkorva distillery.

Sustainability has for long been a strategic priority and key success factor for Altia and as of 2020 it is an integral part of Altia's refined company strategy. The aim of the company's responsibility efforts is to build a sustainable long-term business. Altia also wants to promote a modern and responsible Nordic drinking culture. This target is summarised in the company's purpose, Let's Drink Better.

Altia has been following a group level corporate responsibility action plan for 2018–2020. The action plan progressed as planned in 2019 at the same time, when a new long-term Sustainability Roadmap was built. In December 2019, Altia published its new Sustainability Roadmap 2030, with long-term goals 10 years ahead, as well as ambitious, numerical targets, based on United Nations Sustainable Development Goals. The key goal is that Altia will aim to have carbon neutral production in 2025, without using compensations.

Altia's new sustainability roadmap has four focus areas, which also include the cornerstones of the previous plan: Our Distillery, Our Drink, Out Society and Our People. The focus ares are based on four selected United Nations Sustainable Development Goals (SDGs), Altia's purpose and strategy, stakeholder expectations, the company's own operating principles and codes of conduct, as well as the amfori BSCI Code of Conduct, which in turn is based on key international agreements protecting workers' rights. Altia has joined the amfori BSCI initiative and aims to annually increase the traceability and transparency of product and raw material supply chains.

More details can be found in the Non-Financial Statement published in connection with the Report by the Board of Directors and in the Annual Report's dedicated section on Sustainability.

Health, safety and environment

Occupational health and safety

Occupational safety is a vital part of Altia's corporate responsibility. Altia aims to reduce the number of accidents, absences caused by accidents and sickness absences. To achieve these goals, various occupational safety targets were set and related actions were conducted across different Altia sites during 2019.

In 2019, the sickness absence, excluding commuting rate was 3.7% (3.4%). The accident frequency (the number of accidents per one million working hours) for accidents requiring at least one day of absence was 9 (12). There were no fatal work-related accidents in 2019 (0).

The environment and energy efficiency

Altia's work with environmental matters focuses on minimising the environmental impacts generated by Altia's own operations. The most significant environmental impacts of Altia's operations are energy consumption, water consumption, waste water quality, waste generation and the non-quality costs generated from scrapped raw materials, packaging materials and end products. Environmental indicators have been defined to support the reduction of these impacts. Annual targets and related actions were defined for different locations.

Organic loading of wastewater decreased at Rajamäki and increased at Koskenkorva plants during the reporting period. At Koskenkorva, wastewater calculation include also A-Rehu's amount. A-Rehu operates on Koskenkorva plant area. Water consumption relative to production increased at Rajamäki and decreased at Tabasalu and Koskenkorva. The average waste utilization rate for the Altia production sites in Rajamäki, Koskenkorva and Tabasalu, was 99.5% in 2019 (99.7%).

The bioenergy power plant at Koskenkorva, which uses barley husks as its primary fuel, has enabled the Koskenkorva plant to reduce its carbon dioxide emissions and achieve a 62% self-sufficiency rate in fuels for steam production in the reporting period. The bioenergy power plant has been operating at full capacity since January 2015. The use of renewable fuel has reduced the Koskenkorva plant's carbon dioxide emissions by 58% in 2019 compared to the base year 2014 level.

Energy efficiency achieved through various energy saving measures is a major development area for the company both in terms of profitability and environmental responsibility. Altia is committed to the Finnish energy efficiency agreement for the period of 2017–2025, with the target to reduce energy consumption by 10% by the year 2025, compared to the base year 2014. As part of the new Sustanability Roadmap, Altia has also committed to 100% renewable energy by 2025. In 2019, energy use relative to production volume decreased at the Rajamäki plant and increased at the Koskenkorva plant.

Risks and risk management

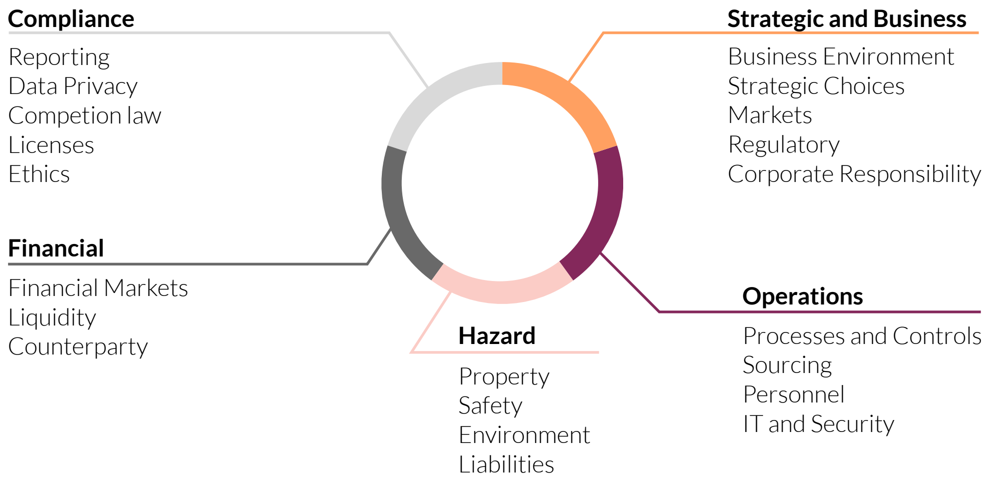
Risk management

Altia's risk management aims to support the realisation of the company's strategy, risk identification, and means to reduce the likelihood and impact of risk materialisation, as well as to safeguard business continuity. Risks may be the result of an internal or external event. The Group's risk management policy has been approved by Altia Plc's Board of Directors.

The risk management policy describes the goals, principles and responsibilities of Altia's risk management and the related reporting principles. In line with this, the risk management steering group supports and coordinates risk management as part of the Group's planning and control processes and reports key risks to the company's management and Audit Committee. The most significant risks and uncertainties are assessed yearly in the Report of the Board of Directors.

Altia's business areas are responsible for risks related to their operations, as well as for their identification, prevention and key limitation methods. The Group's finance department manages financial risks according to the hedging principles defined in the company's financial policy. The management principles of the Group's most significant financial risks are described in more detail in the Notes to the Consolidated Financial Statements, under

ALTIA'S RISK CHART



section 4.1. Financial risk management. The finance department is also responsible for insurance programmes that cover the entire Group.

Altia's risk management process is based on the ISO 31000 standard and also includes ERM components, as applicable. The Corporate Governance Statement includes information on the risk management process.

Most significant risks and uncertainties

For reporting and risk assessment purposes, risks are categorised into five classes: strategic and business risks, operational and process-related risks, damage risks, financial risks and compliance risks. The Board of Directors assesses these central risks and the measures aiming to reduce the likelihood of their materialisation every three months.

Strategic and business risks relate to decision-making, resource allocation, management systems and the capacity to respond to changes in the operating environment (Strategy period: long-term, 3–5 years). Responsibility risks related to business operations are described in the Non-Financial Statement published in connection with the Report by the Board of Directors.

Operational risks concern the implementation

Risk	Description	Risk management
Raw material price risk	The availability of domestic barley and its market price has a significant impact on the profitability of Altia's business.	Altia ensures the availability of barley with contract farming and the price of barley in cooperation with farmers and grain companies.
Risks related to customers and consumer demand	Our customers in Altia's market areas include Nordic retail monopolies, wholesalers who sell alcohol, restaurants, retail stores, travel retail, international wine and spirits companies and importers operating in the export markets. The wide customer base provides Altia with diverse opportunities for the long-term development of customer cooperation.	A strong market position, efficient industrial processes, good quality and well-known brands improve Altia's chances to manage the risk.
	Changes in consumer behaviour may, in the long term, shift the emphasis in the demand for Altia's products between different product categories.	Changes in consumption patterns and the need to adjust operations are prepared for by investing in consumer-driven product development.
Product safety risks	As a wine and spirits company, one major risk is ensuring the quality and safety of the raw materials and finished goods through the supply chain.	Altia employs modern methods to ensure the safety of production processes and to eliminate various microbiological, chemical and physical hazards. In ensuring product safety, Altia complies with the operating methods required by food safety management and quality certificates.
Damage risks	Altia has production facilities in Finland, Estonia and France. A fire or other unforeseen event may interrupt the operations of a production facility.	All of our production facilities have insurance policies for material damage and the interruption of operations in the Group's insurance programme. Key production facilities are subject to a risk survey every 1–2 years. Continuity plans serve to limit any possible loss of profits.
Financial risks	The key risks related to finance in Altia's operations are currency transaction and translation risks, interest rate risks and refinancing and liquidity risks.	Financial risk management aims to mitigate any impact that price fluctuations and other uncertainties in the financial markets have on operating results, the balance sheet and cash flow and to ensure sufficient liquidity. The management principles of the Group's most significant financial risks are described in more detail in the Notes to the Consolidated Financial Statements, under section 4.1. Financial risk management.
Compliance	Key compliance risks in Altia's operations relate to the breach of laws and regulations and decisions by authorities concerning reporting, permits and licenses, marketing of alcoholic beverages, competition law and processing of personal data.	Altia aims to manage compliance risks and ensure ethically sustainable business practices with guidance and regular training. Compliance risk management aims to avoid sanctions, consequences and official investigations and decisions that may damage the company's profitability, business continuity and reputation.

of strategy and day-to-day business operations. Such risks include deviations in processes, systems and conduct (Budget period: short-term, 1–2 years).

Damage risks are errors, malfunctions and accidents occurring within Altia or its operating environment, resulting in damage or loss.

Financial risks pertain to changes in market prices, the short- and long-term adequacy of financial assets and the ability of counterparties to meet their financial obligations.

Compliance risks involve violations of laws and permits as well as ethically sustainable business practices applicable to the company's operations and industry. The risk table on the previous page contains a summary of key uncertainties with an either positive or negative effect on Altia's operations.

Price risk associated with commodities

Barley

In 2019, Altia consumed approximately 212 (212) million kilos of Finnish grain to produce ethanol and starch. The availability of high-quality domestic barley is ensured through contract cultivation and cooperation with farmers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of several factors that affect Finnish barley supply and demand. The price of barley is therefore considered to be a significant risk for Altia during the financial year. The price risk has not been hedged against with derivative instruments.

Electricity

A strong increase in the market price of electricity is a significant risk for Altia. The risk is managed by following Altia's principles for electricity procurement. These principles determine the hedging limits within which the electricity price risk is hedged against. The hedges are executed with the OTC-derivatives of Nasdaq OMX Oslo ASA.

The hedging service for electricity procurement has been outsourced.

At the end of 2019, the hedging ratio for deliveries for the next 12 months was 53.7% (64.1%), in line with the set targets. In 2019, the average hedging ratio was 66.0% (68.0%).

Cash flow hedge accounting in accordance with IFRS 9 is applied to the hedges against electric-ity price risk, and hedge effectiveness is tested quarterly. All hedging was effective in 2019 as that was in 2018.

Altia purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

Sensitivity to market risks

The table above describes the sensitivity of the Group's profit and equity (before taxes) to changes in electricity prices, foreign exchange rates and interest rates. When Altia applies hedge accounting, the sensitivity is directed at equity. When hedge accounting is not applied, the sensitivity is recognised as a potential impact on profit or loss.

The sensitivity to foreign exchange rate changes is calculated from the net currency position resulting from financial instruments.

The total group floating rate liability position consists of floating rate liabilities EUR 70.0 (75.0) million and floating leg of interest rate swap EUR 20.0 (20.0) million which is netting the interest rate risk.

An increase of one percentage point in interest rates would have an effect of EUR -0.5 (-0.5) million on the income statement. The effect of the increase in market interest rates on the Group's profit is determined by net interest expenses.

SENSITIVITY OF FINANCIAL INSTRUMENTS TO MARKET RISKS (BEFORE TAXES) IN ACCORDANCE WITH IFRS 7

EUR million	2019 Income statement	2019 Equity	2018 Income statement	2018 Equity
+/-10% electricity	-	+/-0.2	-	+/-0.3
+/-10% change in EUR/NOK exchange rate	-/+0.0	+/-0.2	-/+0.1	+/-0.2
+/-10% change in EUR/SEK exchange rate	-/+0.2	+/-1.8	-/+0.2	+/-2.2
+/-10% change in EUR/USD exchange rate	-/+0.0	-/+0.2	-/+0.1	-/+0.4
+/-10% change in EUR/AUD exchange rate	-/+0.0	-/+0.2	-/+0.0	-/+0.2
+/-1%-points change in interest rates	-0.5	+0.4	-0.5	+0.6

Note: +10% increase in EUR/SEK exchange rate would have an EUR -0.2 million effect in income statement. Other risks with same principle.

Short-term risks and uncertainties

The most significant uncertainties in the company's operations relate to the overall economic development and its impacts on consumption, as well as the effects of alcohol taxes and legislation on consumer behaviour. Unexpected and unforeseen disruptions in production and deliveries form the major short-term risks related to operations, as well as sudden and significant changes in prices of raw materials, especially related to barley.

Altia Plc's Board of Directors has confirmed the Group Risk Management Policy. Risk management is aimed at supporting the implementation of Altia Group's strategy, the identification of risks and methods for reducing the probability and impacts of risks, as well as ensuring business continuity. Risks may arise from internal or external events.

Outlook for 2020

Market outlook

The development of the Group's business operations and profitability are affected by the competitive environment, the overall economic outlook and changes in alcohol taxation and regulation. Uncertainty related to changes in consumer buying behaviour and consumer demand continues. Also, overall fluctuations of direct product costs affect the Group's profitability.

Seasonality

There are substantial seasonal fluctuations in the consumption of alcoholic beverages impacting the net sales and cash flow of Altia. The company typically generates large amounts of its revenue and cash flow during the fourth quarter of the year, whereas the first quarter of the year is significantly lower. In addition, excise taxes related to the high season at the end of the year are paid in January, resulting in large cash outflows at the beginning of the year.

Guidance

The continued decline in market volumes in Finland puts pressure on profitability growth. The uncertainties in global travelling impacts border trade and travel retail regionally and in Asia. Guidance assumes a normal barley price level following the 2020 harvest. Industrial services are impacted by phasing of volumes between the years.

The comparable EBITDA is expected to be at the same level as or higher than in 2019 (2019: EUR 44.8 million).

Financial calendar 2020

The Annual Report 2019 including the financial statements, Board of Directors' report, Auditor's report, the Corporate Governance statement and the remuneration statement will be published in English and Finnish on Altia's website during week 10 (the week starting on 2 March).

Altia Plc will publish financial reports in 2020 as follows:

- 29 April: Business Review for January-March 2020
- 19 August: Half-Year Report for January-June 2020
- 6 November: Business Review for January-September 2020

Annual General Meeting 2020

Altia Plc's Annual General Meeting (AGM) 2020 is planned to be held on 25 March 2020 in Helsinki. The notice to and instructions for the AGM are published on Altia's website.

Dividend proposal

According to the financial statements on 31 December 2019, the parent company's distributable funds amount to EUR 96 936 582.11 including profit for the period of EUR 38 585 786.54.

There have been no significant changes to the parent company's financial position after the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.42 per share be paid for the financial year 2019.

Events after the period

On 29 January, the proposals by the Shareholders' Nomination Board to the Annual General Meeting were announced. The Nomination Board proposes that the number of members of the Board of Directors would be seven and that of the present members Tiina Lencioni, Jukka Ohtola, Anette Rosengren, Torsten Steenholt and Sanna Suvanto-Harsaae would be re-elected and that Jukka Leinonen and Jyrki Mäki-Kala would be elected as new members.

Further, the Nomination Board proposes that the remuneration to be paid to the members of the Board of Directors during the next term would consist of a monthly term of office fee as follows: EUR 4 000 per month, Chairman; EUR 2 500 per month, Vice Chairman; EUR 2 000 per month, member. In addition to the monthly fee, the Board members would receive a meeting fee for the Board of Directors and Board Committee meetings of EUR 600 per meeting for Board members residing in Finland and EUR 1 200 per meeting for Board members residing abroad. Travel expenses would be reimbursed in accordance with the company's travel policy.

In addition, the Nomination Board proposes to amend the Charter of the Shareholders' Nomination Board so that the three largest shareholders shall be determined on the first banking day of June each year (currently determined on the first banking day of September each year).

Helsinki, 12 February 2020
Altia Plc
Board of Directors

Non-financial statement

Introduction

Corporate responsibility has for long been a strategic priority and key success factor for Altia and as of 2020 it is an integral part of Altia's company strategy. The aim of the company's responsibility efforts is to build sustainable long-term business. With its new Sustainability Roadmap 2030 and the key goal of carbon-free production Altia wants to add to the national and international efforts of mitigating climate change. Altia also wants to promote a modern and responsible Nordic drinking culture. This target is summarised in the company's purpose, Let's Drink Better. Better drinking can be interpreted as, for example, a drinking culture that is of a higher quality, moderate in quantity, lighter, more social or more environmentally friendly.

Altia has reported on the company's responsibility efforts for ten years in accordance with the model for corporate responsibility reporting for state-owned companies[1] and the Global Reporting Initiative (GRI) guidelines.

This non-financial statement describes, in accordance with the Finnish Accounting Act, Altia's approach to the management of environmental, social and employee matters, as well as matters related to respect for human rights and anti-corruption and bribery, in its operations.

More detailed information about our responsibility work is provided in a separate section on Sustainability in Annual Report.

Business model

Altia's business model is based on offering a strong portfolio of its own brands and a versatile range of international partner brands, as well as providing services to its customers utilising the company's production, packaging and logistics capacity. In addition, by-products from the production process are sold to industrial customers in other industries. The integrated operating model creates significant economies of scale in sourcing, production and distribution, and allows the company to take advantage of its shared operations – such as consumer research, innovation, product development and overall know-how – and use its centralised support functions efficiently. The Business Overview section contains a description of how Altia creates value.

Environmental matters

a. Policies and ways of working (including due diligence)

Altia's work on environmental matters focuses on minimising the environmental impacts of the company's own operations. Altia aims for high material and resource efficiency and develops products and their packaging with a view to achieving a lower environmental impact. In addition, necessary measures are taken to protect the groundwater resources used as an ingredient in Altia's products.

The environmental aspects relevant to the company are assessed at three-year intervals. In the assessment conducted in 2018, energy consumption, water consumption, wastewater and its quality, as well as waste generation, were identified as the most significant environmental aspects. Environmental key performance indicators and annual reduction targets were defined to support the reduction of these impacts. Plant-specific targets and the actions necessary to achieve the targets are set annually, and progress is monitored monthly with the help of the indicators.

The standards, policies and principles relevant to Altia's environmental work include:

- Altia Code of Conduct
- Altia Quality, Safety and Environmental Principles
- ISO14001 Environmental Management System standard; the certification covers Altia's operations in Finland

b. Principal risks and their management

Environmental risks are assessed regularly as part of the assessment of Altia's environmental impacts and of Altia Group's risk management.

The principal risks identified include possible leaks to the soil or waterways (including groundwater areas), overruns of the wastewater quality limits in Altia's environmental permits, and the costs related to maintaining compliance with increasingly strict environmental regulations as well as the fines and sanctions resulting from any non-compliance with the said regulations.

The risks are managed through various measures, including the maintenance of an environmental management system in accordance with the ISO14001 standard, regular monitoring of wastewater quality, ownership of land in groundwater areas and monitoring legislative developments.

c. Outcome and KPIs

Altia's long-term work with circular economy at the Koskenkorva distillery was noted as Sitra selected Altia to their list of most inspiring circular economy companies.

[1] Government Resolution on State Ownership Policy 3 November 2011, Annex 3

KPI	2019	2018	2017
Energy efficiency (MWh/ m^3 of product or tonne of barley)	Koskenkorva: 0.63 Rajamäki and Tabasalu: 0.27	Koskenkorva: 0.63 Rajamäki and Tabasalu: 0.31	Koskenkorva: 0.63 Rajamäki and Tabasalu: 0.28
Water efficiency (m^3/m^3 of product or tonne of barley)[1]	Koskenkorva: 1.49 Rajamäki and Tabasalu: 1.65	Koskenkorva: 2.26 Rajamäki and Tabasalu: 1.61	Koskenkorva: 2.28 Rajamäki and Tabasalu: 1.46
Quality of wastewater (kg COD/m^3 of product or tonne of barley)[2]	Koskenkorva: 3.37 Rajamäki and Tabasalu: 2.29	Koskenkorva: 3.10 Rajamäki and Tabasalu: 3.35	Koskenkorva: 2.23 Rajamäki and Tabasalu: 2.92
Average rate of recycling and reutilisation	99.5 %	99.7 %	99.5 %
Monetary value of fines and number of non-monetary sanctions	0	0	0

[1] Monitoring of the KPI for water efficiency was discontinued at the beginning of 2018 at the Rajamäki plant of the Industrial Products unit, because the KPI is not material for the operations.
[2] The KPI for the quality of wastewater is not monitored at the Tabasalu plant.

In Finland, Altia has joined the voluntary Energy Efficiency Agreement, the other parties of which are the Ministry of Economic Affairs and Employment, industry associations and companies. With the agreement, Altia commits to reducing its energy consumption by 10% by 2025, compared to the base year 2014. Energy consumption relative to production decreased at the Rajamäki plant and increased at Koskenkorva in 2019.

The limit values for wastewater loads are specified in Altia's environmental permits. Organic loading of wastewater decreased at Rajamäki and increased at Koskenkorva in 2019. The average monthly biological oxygen demand (BOD) in wastewater didn't exceed the monthly average permit limit. The daily BOD limit was exceeded 3 times during 2019. The results of Altia's key environmental indicators are summarised in the table above and discussed in more detail under Our Distillery section on Sustainability.

The bioenergy power plant at the Koskenkorva plant enabled Altia to reduce the Koskenkorva plant's carbon dioxide emissions by 58 % in 2019, compared to 2014. The plant's fuel self-sufficiency in steam production was 62 % in 2019.

Social and employee matters

Consumer and product related matters

a. Policies and ways of working (including due diligence)

Product safety is a top priority for Altia, and the company continuously improves the quality of raw materials and final products. Altia markets its products responsibly and in compliance with applicable marketing laws and provides consumer information in accordance with applicable regulations.

The key processes related to product quality and safety have been defined and the relevant instructions are maintained in Altia's management system. Key performance indicators regarding quality, targets included, have been set they are monitored on a monthy basis. The KPIs concern quality costs, customer feedback and the proportions of deviating batches. Plant-specific targets and the actions necessary to achieve those targets are furthermore set annually, and progress is monitored monthly with the help of the indicators.

Altia wants to build responsible drinking culture. Given that the company's own employees are in a key position for driving the change, Altia has an employee alcohol policy in place. The policy is applicable to all Altia employees and everyone working on Altia's production sites or in its offices.

Altia's Rajamäki plant has international Fair Trade and Fair for Life certifications. Alti Brunna has also Fair for Life certification.

The Koskenkorva distillery, the Rajamäki alcoholic beverage plant and the distillery in Sundsvall are certified for organic production.

The standards, policies and principles relevant to the safety, quality, marketing and consumption of Altia's products include:

- Altia Code of Conduct
- ISO9001 Quality Management standard; the certification covers Altia's operations in Finland as well as the Tabasalu plant in Estonia
- ISO22000 Food Safety Management standard; the certification covers Altia's Rajamäki plant
- Altia Quality, Safety and Environmental Principles
- Altia Marketing Guidelines
- Altia Employee Alcohol Policy

b. Principal risks and their management

The risks are assessed as part of quality and safety risk assessments and as part of Altia Group's risk management. The principal risks identified include failure to comply with hygiene requirements, lack of consistency in the quality of products, any contamination of products, as well as defects in raw materials or packaging. Such incidents can lead to product recalls or make the company subject to legal claims. As the alcohol business is highly regulated, stricter regulation regarding the marketing and advertising of alcoholic beverages or their taxation, for example, could have an impact on the company's operations.

To manage risks of this type, Altia maintains quality and food safety management systems in accordance with international standards. Quali-

KPI	2019	2018	2017
Amount of income taxes paid and excise taxes collected	EUR 435 million The full tax footprint is available in the section on Sustainability	EUR 454.2 million The full tax footprint is available in the section on Sustainability	EUR 425.6 million The full tax footprint is available in the section on Sustainability

ty is monitored continuously during production by means of line inspections and testing, as well as the analysis of end products. Instructions and process are maintained in view of possible recalls and situations are practised regularly by way of phantom testing. Applicable legislation and any developments therein are reviewed regularly.

c. Outcome and KPIs

Altia's Rajamäki plant was audited to receive the FSSC 22000 food safety certificate in December 2019 and the certificate is expected to be granted in beginning of 2020. During the reporting year, the company arranged training for employees. Altia has also specified instructions and processes for food fraud mitigation and food defence. Plant-specific targets and the actions necessary to achieve those targets are set annually and progress is monitored monthly with the help of the indicators.

Altia's tax footprint is significant compared to company net sales, due to excise duty.

Employee matters

a. Policies and ways of working (including due diligence)

Altia is committed to building a culture with a motivating and supportive working environment based on safety, openness, equality and trust. The company values diversity and promotes equal treatment and equal opportunities. Altia maintains a continuous dialogue with its employees by sharing information and engaging the employees and respects the freedom of association and the right to collective bargaining. All Altia employees are expected to respect each other's rights to fair treatment and to act in accordance with the Altia Behaviours. These are Renew Bravely, Show Direction, Build Success Together and Implement!

Altia wants to ensure safe and healthy working conditions for all its employees. The goal is to reduce sickness absences, the number of accidents and the number of absences caused by accidents. Plant-specific targets and the actions necessary to achieve those targets are set annually, and progress is monitored monthly by way of key performance indicators. Targets are also set and action plans prepared for operating locations that are not within the scope of the OHSAS 18001:2007 certification.

The standards, policies and principles relevant to employee matters include:

- Altia Code of Conduct
- Altia Behaviours
- OHSAS 18001:2007 Occupational Health and Safety Management standard; the certification covers Altia's operations in Finland
- Altia Quality, Safety and Environmental Principles
- amfori BSCI Code of Conduct

b. Principal risks and their management

The risks are assessed as part of Altia Group's risk management. The principal risks relate to Altia's ability to recruit, develop, motivate and retain the right know-how and succeed in daily leadership, the maintenance of good collaboration practices with employees and their unions, as well as the occurrence of accidents. To manage the risks, Altia develops its employer value proposition, recruitment and retention, conducts the employee satisfaction survey Altia Tasting on an annual basis, maintains frequent collaboration with unions, and maintains an occupational health and safety management system in accordance with the OHSAS 18001 standard.

c. Outcome and KPIs

One of the key focus areas in personnel development in 2019 was work safety. Safety culture was boosted by initiating a comprehensive Human Factor program at Rajamäki plant. The idea of the programme is to lift the safety culture from individualist to systemic and therefore enhance understanding the requirements of the changing environment. The plan is to continue this initiative in other plants during 2020 and 2021.

Altia's annual Altia Tasting employee survey was organised in January 2019. The survey

KPI	2019	2018	2017
Sickness absence, % (reference to GRI standard)	3.7	3.4	3.3
Accident absence rate without commuting, LTIF (reference to GRI standard)	9[1]	12[1]	11
Accident absence, % (reference to GRI standard)	0.07	0.07	0.29
Number of accidents	11[1]	15[1]	16

[1] 2018 and 2019 LTIF and number of accidents is reported without commuting.

provided managers with precise results for the development of their leadership. The most important development targets uncovered in the employee survey related to the communication of opportunities for competence development, the development of leadership skills and the visibility of the executive management. Several measures were carried out during the year to develop these areas, e.g. the initiative to define together with our managers how the good leadership should look like, improving the quality of development discussion by modifying the discussion format based on feedback collected from employees, and putting focus on EMT's participation in employee events.

The results of the indicators for occupational health and safety are presented in the table above. There were no fatal work-related accidents during the year.

Respect for human rights

a. Policies and ways of working (including due diligence)

Altia is committed to respecting and promoting human rights and international labour standards in accordance with the United Nation's (UN) Universal Declaration of Human Rights and the key conventions of the International Labour Organization (ILO). Altia also expects the same from its suppliers, partners and subcontractors.

KPI	2019	2018	2017
Share of purchases from risk countries as identified in amfori BSCI risk country classification	2 %	3 %	4 %
Number of grievances related to human rights reported through the whistleblowing channel	0	0	0

The whistleblowing channel was launched in October 2017, due to which the first full year figure concerns 2018.

Altia's most relevant human rights impacts are related to the sourcing of wines, spirits and raw materials. In 2017, Altia joined amfori BSCI and amfori BSCI's Sustainable Wine Programme to develop responsible sourcing. As a participant Altia is committed to furthering the principles of the amfori BSCI Code of Conduct in its supply chains. The code of conduct's principles are based on key international agreements and frameworks such as ILO conventions and declarations, the UN Guiding Principles on Business and Human Rights, as well as OECD guidelines for multinational enterprises.

Altia's due diligence process is developed continuously. It is currently composed of mapping the supply chains of Altia's products and their components, using a questionnaire to gather information about Altia's suppliers' and partners' responsibility work, contractual obligations as well as participation in and utilisation of the tools offered by amfori BSCI, including third party audits. Altia has a whistleblowing channel open to all stakeholders, maintained by an independent third party.

The standards, policies and principles relevant to Altia's work with human rights matters include:

- Altia Code of Conduct
- amfori BSCI Code of Conduct
- Altia Code of Conduct for Suppliers and Subcontractors

b. Principal risks and their management

The principal risks are related to Altia's business relationships and primarily concern the wine, spirits and raw material supply chains where these extend to countries with a higher risk of possible violations of international labour standards. In addition, Altia's customers have demands for social compliance within the supply chains, and any violation of such demands by Altia's suppliers, sub-suppliers or partners could lead to situations where a customer stops any further deliveries of a product. The risks are managed with the due diligence process explained above.

c. Outcome and KPIs

6 amfori BSCI audits (full audits or follow-up audits) were conducted at Altia's suppliers, partners or their sub-suppliers in 2019 (21 in 2018).

Anti-corruption and -bribery matters

a. Policies and ways of working (including due diligence)

Altia has zero tolerance towards bribery and corruption. The company is committed to operating fairly and to not offering improper benefits to any party. Altia also expects its representatives, consultants, agents, subcontractors and other business partners to unconditionally refrain from corruptive behaviour when performing services for Altia or on its behalf. Altia does not support, either directly or indirectly, political parties or organisations. Nor does the company participate in financing election campaigns of individual candidates.

Altia published its new Code of Conduct is 2018. The Altia Code of Conduct describes the company's commitment to ethical business conduct. The cornerstones of the Altia Code of Conduct are *Our employees*, *Our business* and *Our integrity*. Every Altia employee is familiar-

KPI	2019	2018	2017	2016
Communication and training on anti-corruption policies (reference to GRI standard)	Online course on Altia's Anti-Bribery and -Corruption Policy organised for the entire personnel. Internal communication on ethical business conduct.	Online course on the Altia Code of Conduct organised for the entire personnel	The relevant employees at Altia were provided with online training	N/A
Number of anti-corruption and bribery incidents reported through the whistleblowing channel	0	0	0	N/A

ised with the Altia Code of Conduct, including the company's anti-bribery and corruption activities, with the help of an online course.

Altia has a whistleblowing channel maintained by an independent third party. The channel is open to all Altia employees and external stakeholders. All concerns raised, whether through the channel or through other means, are investigated in accordance with an established process to ensure accuracy, anonymity and fairness.

The standards, policies and principles relevant to anti-corruption and -bribery matters include:

- Altia Code of Conduct
- Anti-Bribery and Corruption Policy
- Whistleblowing channel

b. Principal risks and their management

The risks are assessed as part of Altia Group's risk management. The principal risks associated with anti-corruption and bribery matters include a reputational risk caused by any act of corruption or bribery, especially related to Altia's key persons and business partners. Given that the alcohol business is often a regulated business, obtaining and maintaining the necessary licenses and permits are associated with a risk of corruption or bribery, especially in countries with a high corruption index. The risks are managed through contractual obligations, third party due diligence inspections concerning suppliers and distributors, where necessary, as well as internal training on the Altia Anti-Bribery and Corruption Policy.

c. Outcome and KPIs

In 2019, Altia arranged an online course on Altia's Anti-Bribery and -Corruption Policy to its entire personnel. The whistleblowing channel has been in use since 2017. No reports were submitted through the whistleblowing channel in 2019. The first full-year figures on reports received through the whistleblowing channel were available in 2018.

Key ratios of the Group

		2019	2018	2017	2016	2015
Income statement						
Net sales	EUR million	359.6	357.3	359.0	356.6	380.7
Comparable EBITDA	EUR million	44.8	40.0	42.4	40.8	38.0
(% of net sales)	%	12.4	11.2	11.8	11.5	10.0
EBITDA	EUR million	43.1	34.0	40.3	60.8	39.7
Comparable operating result (EBIT)	EUR million	26.8	25.6	28.2	26.4	23.6
(% of net sales)	%	7.5	7.2	7.8	7.4	6.2
Operating result	EUR million	25.1	19.7	26.1	46.3	25.3
Result before taxes	EUR million	24.6	18.6	25.0	45.0	23.4
Result for the period	EUR million	18.4	15.1	18.3	36.1	18.1
Items affecting comparability	EUR million	-1.7	-6.0	-2.1	19.9	1.7
Balance sheet						
Cash and cash equivalents	EUR million	64.2	42.0	52.4	68.0	76.3
Total equity	EUR million	151.2	150.1	136.8	191.3	168.6
Borrowings	EUR million	82.6	89.4	100.1	72.8	96.7
Invested capital	EUR million	233.8	239.5	236.9	264.0	265.3
Profitability						
Return on equity (ROE)	%	12.2	10.5	11.1	20.0	11.6
Return on invested capital (ROI)	%	8.5	7.0	8.0	14.4	7.6
Financing and financial position						
Net debt	EUR million	28.9	47.4	47.7	4.7	20.4
Gearing	%	19.1	31.6	34.9	2.5	12.1
Equity ratio	%	37.8	38.4	34.3	44.2	36.7
Net cash flow from operating activities	EUR million	52.6	6.5	37.6	29.4	34.8
Net debt/comparable EBITDA		0.6	1.2	1.1	0.1	0.5

		2019	2018	2017	2016	2015
Share-based key ratios						
Earnings / share (Basic and diluted)	EUR	0.51	0.42	0.51	1.00	0.50
Equity / share	EUR	4.18	4.15	3.80	5.32	4.69
Dividend per share	EUR	0.42[1]	0.38	-	-	-
Dividend/earnings	%	82.6[1]	91.2	-	-	-
Effective dividend yield	%	5.1[1]	5.4	-	-	-
Price/Earnings		16.1	17.0	-	-	-
Closing share price on the last day of trading	EUR	8.18	7.07	-	-	-
Highest	EUR	8.22	9.50	-	-	-
Lowest	EUR	7.080	7.015	-	-	-
Market value of shares at the end of period	EUR million	295.6	255.5	-	-	-
Number of shares outstanding at the end of period		36 140 485	36 140 485	35 960 000	35 960 000	35 960 000
Personnel						
Average number of personnel		682	718	762	829	879
Impact of IFRS 16 on selected key figures						
Comparable EBITDA without IFRS 16 impact	EUR million	41.0	-	-	-	-
Net debt without IFRS 16 impact	EUR million	18.4	-	-	-	-
Equity ratio without IFRS 16 impact	%	38.8	-	-	-	-
Gearing without IFRS 16 impact	%	12.1	-	-	-	-

[1] Board's proposal

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES (APM) TO IFRS FIGURES AND ITEMS AFFECTING COMPARABILITY (IAC)

EUR million	2019	2018
Items affecting comparability		
Net gains or losses from business and assets disposals	0.1	0.4
Cost for closure of business operations and restructurings	-0.2	-1.1
Major corporate projects		
Costs related to the closed voluntary pension scheme	-1.6	-0.7
Costs related to stock exchange listing	-	-4.6
Total items affecting comparability	**-1.7**	**-6.0**
Comparable EBITDA		
Operating result	25.1	19.7
Less:		
Depreciation, amortisation and impairment	17.9	14.4
Total items affecting comparability	1.7	6.0
Comparable EBITDA	**44.8**	**40.0**
% of net sales	12.4	11.2
Comparable EBITDA without IFRS 16 impact		
Comparable EBITDA	44.8	-
Less:		
IFRS 16 impact to EBITDA	3.8	-
Comparable EBITDA without IFRS 16 impact	**41.0**	**-**
Comparable EBIT		
Operating result	25.1	19.7
Less:		
Total items affecting comparability	1.7	6.0
Comparable EBIT	**26.8**	**25.6**
% of net sales	7.5	7.2

Altia presents alternative performance measures as additional information to financial measures presented in the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows prepared in accordance with IFRS. In Altia's view, alternative performance measures provide significant additional information on Altia's results of operations, financial position and cash flows to management, investors, analysts and other stakeholders.

Alternative performance measures should not be viewed in isolation or as a substitute to the IFRS financial measures. All companies do not calculate alternative performance measures in a uniform way, and therefore Altia's alternative performance measures may not be comparable with similarly named measures presented by other companies.

The alternative performance measures are unaudited.

THE DEFINITIONS AND REASONS FOR THE USE OF FINANCIAL KEY INDICATORS

Key figure	Definition	Reason for the use
Operating margin, %	Operating result / Net sales	Operating result shows result generated by the operating activities.
EBITDA	Operating result before depreciation and amortization	EBITDA is the indicator to measure the performance of the Group.
EBITDA margin, %	EBITDA / Net sales	
Comparable operating result	Operating result excluding items affecting comparability	Comparable EBITDA, comparable EBITDA margin, comparable operating result and comparable operating margin are presented in addition to EBITDA and operating result to reflect the underlying business performance and to enhance comparability from period to period. Altia believes that these comparable performance measures provide meaningful supplemental information by excluding items outside normal business, which reduce comparability between the periods.
Comparable operating margin, %	Comparable operating result / Net sales	
Comparable EBITDA	EBITDA excluding items affecting comparability	
Comparable EBITDA margin, %	Comparable EBITDA / Net sales	Comparable EBITDA is an internal measure to assess performance of Altia and key performance measure at segment level together with net sales.
Items affecting comparability	Material items outside normal business, such as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development.	Comparable EBITDA margin is also one of Altia's financial targets. Comparable EBITDA is commonly used as a base for valuation purposes outside the Company and therefore important measure to report regularly.
Comparable EBITDA without IFRS 16 impact	Comparable EBITDA – IFRS 16 impact	Comparable EBITDA without IFRS 16 impact improves comparability to previous years.
Invested capital	Total equity + Borrowings	Base for ROI measure.
Return on equity (ROE), %	Result for the period / Total equity (average of reporting period and comparison period)	This measure can be used to evaluate how efficiently Altia has been able to generate results in relation to the equity of the Company.
Return on invested capital (ROI), %	(Result for the period + Interest expenses) / (Total equity + Non-current and current borrowings) (average of reporting period and comparison period)	This measure is used to evaluate how efficiently Altia has been able to generate net results in relation to the total investments made to the Company.
Borrowings	Non-current borrowings + Current borrowings	Net debt is an indicator to measure the total external debt financing of the Group.
Net debt	Borrowings + Non-current and current lease liabilities - Cash and cash equivalents	
Net debt without IFRS 16 impact	Borrowings – Cash and cash equivalents	Net debt without IFRS 16 impact improves comparability to previous years.

Key figure	Definition	Reason for the use
Gearing, %	Net debt / Total equity	Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's indebtedness. Important measure for the loan portfolio.
Gearing without IFRS 16 impact, %	Net debt without IFRS 16 impact / Total equity	Gearing without IFRS 16 impact, % improves comparability to previous years.
Equity ratio, %	Total equity / (Total assets – Advances received)	Equity / assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's capital used in the operations.
Equity ratio without IFRS 16 impact, %	Total equity / (Total assets – Right-of-use assets – Advances received)	Equity ratio without IFRS 16 impact, % improves comparability to previous years.
Net debt / Comparable EBITDA	Net debt / Comparable EBITDA	The level of Net debt / Comparable EBITDA is one of Altia's financial targets.
Net debt / Comparable EBITDA without IFRS 16 impact	Net debt without IFRS 16 impact / Comparable EBITDA without IFRS 16 impact	Net debt / Comparable EBITDA without IFRS 16 impact improves comparability to previous years.
Earnings / share	Result for the period attributable to shareholders of the parent company/Share-issue adjusted number of shares during the period	
Equity/share	Equity attributable to shareholders of the parent company /Share- issue adjusted number of shares at the end of period	
Dividend/share	Dividend distribution for period/Number of shares (basic) at the end of period	
Dividend / earnings %	Dividend/share / Earnings/ share	
Effective dividend yield %	Dividend/share / Price of share at the end of the accounting period	
Price / earnings	Price of share at the end of accounting period / Earnings/share	
Market value of outstanding shares	The number of shares at the end of accounting period x the price of the share at the end of accounting period.	

Financial Statements

Contents to the Financial Statements

SYMBOLS

Accounting

Critical estimates and management judgements

*Part of the Financial Statements

CONSOLIDATED INCOME STATEMENT

EUR million	Note	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
NET SALES	1.1.	**359.6**	**357.3**
Other operating income	1.3.	7.6	7.4
Materials and services	1.4.	-213.1	-206.8
Employee benefit expenses	1.5.	-45.9	-49.9
Other operating expenses	1.6.	-65.0	-73.9
Depreciation, amortisation and impairment	1.7.	-17.9	-14.4
OPERATING RESULT		**25.1**	**19.7**
Finance income	3.1.	3.5	3.5
Finance expenses	3.1.	-5.7	-5.8
Share of profit in associates and joint ventures and income from interests in joint operations		1.6	1.2
RESULT BEFORE TAXES		**24.6**	**18.6**
Income tax expense	6.1.	-6.2	-3.6
RESULT FOR THE PERIOD		**18.4**	**15.1**
Result for the period attributable to:			
Owners of the parent		18.4	15.1
Earnings per share for the result attributable to owners of the parent, EUR			
Basic and diluted	3.4.	0.51	0.42

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Result for the period		18.4	15.1
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		-0.2	0.0
Related income tax	6.1.	0.0	-0.0
Total		**-0.2**	**-0.0**
Items that may be reclassified to profit or loss			
Cash flow hedges		-1.3	0.4
Translation differences	3.4.	-2.4	-3.5
Income tax related to these items	6.1.	0.3	-0.1
Total		**-3.5**	**-3.2**
Other comprehensive income for the period, net of tax		-3.6	-3.2
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**14.8**	**11.9**
Total comprehensive income attributable to:			
Owners of the parent		14.8	11.9

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

EUR million	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Goodwill	2.1.	80.1	80.7
Other intangible assets	2.1.	25.2	29.6
Property, plant and equipment	2.2.	60.9	64.6
Right-of- use assets	2.3.	10.4	-
Investments in associates, joint ventures and interests in joint operations	5.3.	8.8	7.9
Financial assets at fair value through other comprehensive income	3.2.1.	1.4	1.4
Deferred tax assets	6.1.	0.9	0.8
Total non-current assets		**187.7**	**185.1**
Current assets			
Inventories	2.4.	92.0	99.6
Contract assets	2.5.	0.2	0.2
Trade and other receivables	2.6.	54.4	60.9
Current tax assets		1.6	2.5
Cash and cash equivalents	3.2.1.	64.2	42.0
Total current assets		**212.4**	**205.3**
TOTAL ASSETS		**400.2**	**390.4**

EUR million	Note	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	3.4.		
Share capital		60.5	60.5
Invested unrestricted equity fund		1.2	1.2
Fair value reserve		0.6	0.6
Legal reserve		0.1	-
Hedge reserve		-1.0	0.0
Translation differences		-22.1	-19.6
Retained earnings		111.9	107.3
Total equity		**151.2**	**150.1**
Non-current liabilities			
Deferred tax liabilities	6.1.	16.7	16.8
Borrowings	3.2.2.	76.1	82.7
Lease liabilities	3.2.2.	7.1	-
Employee benefit obligations	2.7.	1.4	1.3
Total non-current liabilities		**101.3**	**100.8**
Current liabilities			
Borrowings	3.2.2.	6.5	6.7
Lease liabilities	3.2.2.	3.4	-
Provisions	2.9.	-	0.5
Trade and other payables	2.8.	134.7	131.4
Contract liabilities	2.5.	0.5	0.6
Current tax liabilities		2.5	0.4
Total current liabilities		**147.6**	**139.5**
Total liabilities		**249.0**	**240.3**
TOTAL EQUITY AND LIABILITIES		**400.2**	**390.4**

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
CASH FLOW FROM OPERATING ACTIVITIES			
Result before taxes		24.6	18.6
Adjustments			
Depreciation, amortisation and impairment	1.7.	17.9	14.4
Share of profit in associates and joint ventures and income from investments in joint operations	5.3.	-1.6	-1.2
Net gain on sale of non-current assets	1.3.	-0.0	-0.5
Finance income and costs	3.1.	2.2	2.3
Other adjustments		-0.8	0.8
		17.7	15.7
Change in working capital			
Change in inventories, increase (-) / decrease (+)		7.4	-5.5
Change in contract assets, trade and other receivables, increase (-) / decrease (+)		5.3	-7.4
Change in contract liabilities, trade and other payables, increase (+) / decrease (-)		3.8	-4.3
Change in working capital		16.5	-17.2
Interest paid	3.1.	-1.6	-1.4
Interest received	3.1.	0.2	0.1
Other finance income and expenses paid	3.1.	-1.7	-1.4
Income taxes paid	6.1.	-3.1	-8.0
Financial items and taxes		-6.1	-10.6
NET CASH FLOW FROM OPERATING ACTIVITIES		**52.6**	**6.5**

EUR million	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets	2.1.,2.2.	-6.8	-7.7
Proceeds from sale of property, plant and equipment and intangible assets	1.3.	0.1	0.6
Investments in associated companies and joint ventures		-0.2	-
Repayment of loan receivables	3.2.	-	0.9
Interest received from investments in joint operations	5.3.	0.9	0.9
Dividends received	3.1.	-	0.1
NET CASH FLOW FROM INVESTING ACTIVITIES		**-6.0**	**-5.2**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings	3.2.2.	-	20.0
Repayment of borrowings	3.2.2.	-6.5	-30.7
Repayment of lease liabilities	3.2.2.	-3.7	-
Dividends paid and other distributions of profits	3.4.	-13.7	-
Share issue, personnel offering		-	1.2
NET CASH FLOW FROM FINANCING ACTIVITIES		**-23.9**	**-9.5**
CHANGE IN CASH AND CASH EQUIVALENTS		**22.7**	**-8.2**
Cash and cash equivalents at the beginning of the period		42.0	52.4
Translation differences on cash and cash equivalents		-0.5	-2.2
Change in cash and cash equivalents		22.7	-8.2
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3.2.3.	**64.2**	**42.0**

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the parent EUR million	Note	Share capital	Invested unrestricted equity fund	Fair value reserve	Legal reserve	Hedge reserve	Translation differences	Retained earnings	Total equity
Equity at 1 January 2018		**60.5**	**-**	**0.6**	**-**	**-0.3**	**-16.0**	**92.0**	**136.8**
Change in accounting principle		**-**	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Equity at 1 January 2018, restated		**60.5**	**-**	**0.6**	**-**	**-0.3**	**-16.0**	**92.1**	**136.9**
Total comprehensive income									
Result for the period		-	-	-	-	-	-	15.1	15.1
Other comprehensive income (net of tax)									
Cash flow hedges		-	-	-	-	0.3	-	-	0.3
Translation differences	3.4.	-	-	-	-	-	-3.5	0.0	-3.5
Remeasurements of post-employment benefit obligations	2.7.	-	-	-	-	-	-	-0.0	-0.0
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**0.3**	**-3.5**	**15.1**	**11.9**
Transactions with owners									
Share issue		-	1.2	-	-	-	-	-	1.2
Share based payment, personnel offering		-	-	-	-	-	-	0.1	0.1
Total transactions with owners		**-**	**1.2**	**-**	**-**	**-**	**-**	**0.1**	**1.4**
EQUITY AT 31 DECEMBER 2018		**60.5**	**1.2**	**0.6**	**-**	**0.0**	**-19.6**	**107.3**	**150.1**
Equity at 1 January 2019		**60.5**	**1.2**	**0.6**	**-**	**0.0**	**-19.6**	**107.3**	**150.1**
Total comprehensive income									
Result for the period		-	-	-	-	-	-	18.4	18.4
Other comprehensive income (net of tax)									
Cash flow hedges		-	-	-	-	-1.0	-	-	-1.0
Translation differences	3.4.	-	-	-	-	-	-2.5	0.1	-2.4
Remeasurements of post-employment benefit obligations	2.7.	-	-	-	-	-	-	-0.2	-0.2
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-1.0**	**-2.5**	**18.3**	**14.8**
Transactions with owners									
Dividend distribution		-	-	-	-	-	-	-13.7	**-13.7**
Share based payment		-	-	-	-	-	-	0.1	**0.1**
Total transactions with owners		**-**	-	-	-	-	-	-13.6	**-13.6**
Transfer to reserve		**-**	**-**	**-**	**0.1**	**-**	**-**	**-0.1**	**0.0**
EQUITY AT 31 DECEMBER 2019		**60.5**	**1.2**	**0.6**	**0.1**	**-1.0**	**-22.1**	**111.9**	**151.2**

The notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

GENERAL INFORMATION

Information on Altia

Altia Plc (the "Company") together with its' subsidiaries (the "Group", "Altia Group" or "Altia") is an international alcoholic beverage service Group, which operates in the Nordic countries, Estonia, Latvia and France producing, marketing, selling and distributing both own and partner brands. Altia distils barley spirit from domestic barley for the basis of its beverages. The production plants are located in Finland and Estonia, and aging and production of cognac in France. Altia has high-quality brands of its own and international brands. In addition, the company represents international brands from all over the world. Altia's business also includes industrial products such as starch and feed, technical ethanol and contract services.

Altia's customers include alcohol retail monopolies, alcoholic beverage wholesale outlets, restaurants, grocery stores, travel trade, importers in the export markets and industrial customers.

Altia Plc, the parent company of Altia Group, is domiciled in Helsinki, Finland. Altia Plc is a Finnish publicly listed company. Altia's shares are listed in Nasdaq Helsinki Ltd. The registered address of the Company is Kaapeliaukio 1, FI-00180 Helsinki, Finland. Copies of the consolidated financial statements are available online at www.altiagroup.com or at the Group's headquarters at Kaapeliaukio 1, FI-00180 Helsinki, Finland.

Altia Plc's Board of Directors has approved these financial statements for publication in its meeting on 12 February 2020. According to the Finnish Limited Liability Companies Act, shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting also has the right to make a decision to amend the financial statements.

Basis of preparation

The consolidated financial statements for the year ended 31 December 2019 are prepared in accordance with International Financial Reporting Standards (IFRS) complying with the SIC and IFRIC interpretations in force and approved by EU on 31 December 2019. Notes to the consolidated financial statements also comply with the requirements of the Finnish Accounting Act and Limited Liability Companies Act.

New and amended standards applied in 2019 and future periods are described in Note 6.5.

The consolidated financial statements for the year ended 31 December 2019 are prepared on a historical cost basis, except equity investments and derivatives. The consolidated financial statements are presented in thousands of euros (Annual Reports in millions of euros). The figures are rounded to the nearest thousand, and therefore the sum of individual figures may deviate from the total presented. If the figure is EUR 0, it is shown as a hyphen.

Refer to the table below to see which notes and accounting principles are related.

Nr.	Note	Accounting principle
1.	Operating result	Revenue recognition, operating result
1.2.	Segment information	Operating segments
2.9.	Provisions	Provisions
2.7.	Employee benefit obligations	Employee benefits
2.2.	Property, plant and equipment	Property, plant and equipment
2.3.	Right-of-use assets	Leases
2.4.	Inventories	Inventories
1.6.	Other operating expenses	Leases
2.2.	Property, plant and equipment	
2.1.	Goodwill and other intangible assets	Goodwill
2.1.	Goodwill and other intangible assets	Intangible assets
3.2.1.	Financial assets	Financial assets
3.2.3.	Financial assets and liabilities- classification and fair value	
3.2.2.	Financial liabilities	Financial liabilities
3.2.3.	Financial assets and liabilities- classification and fair value	
3.3.	Derivative instruments and hedge accounting	Derivative contracts and hedge accounting
5.2.	Subsidiaries	Consolidation principles of subsidiaries
5.2.	Subsidiaries	Non-controlling interest and transactions with non-controlling interest
5.3.	Associated companies and joint arrangements	Associates and joint ventures
6.1.	Income tax expense	Income and deferred taxes

Accounting policies requiring management judgement and key sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates, which by definition, seldom equal the actual results. In addition, management makes judgements in applying Altia's accounting policies.

Estimates made in the preparation of the financial statements, and related assumptions, are based on the management's best knowledge at the reporting date. Consequently, the realised results can differ from the estimates. Any changes in estimates and assumptions are recognised when estimates and assumptions are corrected.

The Group's most significant area in which the management has exercised judgement is related to the revenue recognition (Note 1.1.) and impairment provision of trade receivables, and useful lives of intangible assets and parameters used in impairment testing (Note 2.1.), and parameters used in lease accounting. Other critical future assumptions and anticipated uncertainties at the reporting date, which pose a significant risk of resulting in material changes in the carrying amounts of assets and liabilities within the next financial year, are related to deferred taxes (Note 6.1.) and uncertain tax positions.

Net sales
359.6
MEUR

1. Operating result

1.1. REVENUES FROM OPERATIONS

Revenue recognition

The revenue is recognized at an amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price may include variable considerations such as volume discounts, bonuses, marketing support, product returns etc. The variable considerations are estimated using the most likely value method if not yet realized in the end of reporting period. The revenue is further adjusted with indirect sales taxes, excise taxes, deposit and recycling fees and exchange rate differences relating to sales.

Typical contracts with customers include a sale of goods to a customer with only one performance obligation. In contract services the contracts essentially include a single performance obligation, being a series of distinct services such as contract manufacturing, customer services and logistics. The revenue recognition occurs at a point in time, when the control of the goods is transferred to the customer according to the delivery terms. Revenue from the sale of services is recognised at the time of delivery of services.

The most significant revenue flows are generated by the sale of own products and partner brands. In addition, revenues are generated by contract manufacturing, as well as the sale of industrial products, such as starch, feed and technical ethanol. Adjustments to sales and obligations to repurchase certain products are taken into account in the revenue recognition phase.

In partner supplier agreements, which entitle Group to distribute partners' products, Altia acts as a principal towards the end customer having control over the product, discretion in establishing prices and owning the inventory. Accordingly, revenue recognised is the gross amount to which Altia is entitled to in these product sales.

The amount of excise tax deducted from sales revenue is significant. The amounts of sales including tax and excise taxes are presented below:

EUR million	2019	2018
Sales revenues deducted with revenue adjustments	791.5	801.6
Excise tax	-431.9	-444.3
NET SALES	**359.6**	**357.3**
Tax share of sales revenues, %	54.6 %	55.4 %

1.2. SEGMENT INFORMATION

Description of segments and principal activities

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments.

The Board of Directors of Altia has been determined as the Company's current chief operative decision maker, and the reportable segments are based on the Altia's operating structure and internal reporting to the CODM used to assess the performance of the segments. For internal reporting purposes, reporting on the segment profit is based on an internal measure of a comparable EBITDA derived as follows:

- Net sales and direct segment expenses reported within the Comparable EBITDA segment profit measure are measured on an accrual basis and reported under the same accounting principles as in the consolidated accounts.
- Expenses allocated to the segments related to shared function costs or business support services expenses comprise costs such as centralized marketing costs, IT infrastructure related costs, shared support services, headquarter costs including finance and treasury, communication, legal and human resource related costs as well as certain warehousing and service fees. For internal reporting purposes these cost allocations are based on budgeted amounts and variances from budgeted amounts are presented under column "Unallocated and adjustments" and can result in either incurred overruns or savings compared to budgeted amounts. All of these variances are not allocated to the segments for internal reporting purposes.
- The unallocated and adjustments column represents in addition to the budget variances, certain unallocated headquarter costs.

Segment net sales and results

The following tables set out the segment net sales and Comparable EBITDA as well as the reconciliation of the Comparable EBITDA to the group's operating result:

	1 Jan - 31 Dec 2019				
EUR million	Finland & Exports	Scandinavia	Altia Industrial	Unallocated and adjustments	Group
Net sales, total	129.0	121.4	149.7		400.1
Net sales, Internal	-0.4	-0.7	-39.4		-40.5
Net sales, external	**128.6**	**120.7**	**110.2**		**359.6**
Comparable EBITDA without IFRS 16 impact	20.4	11.5	9.6	-0.5	41.0
IFRS16 impact	0.2	0.6	1.8	1.2	3.8
Comparable EBITDA	20.6	12.1	11.4	0.7	44.8
Items affecting comparability[1]					-1.7
EBITDA					**43.1**
Depreciation, amortisation and impairment					-17.9
OPERATING RESULT					**25.1**

EUR million	Finland & Exports	Scandinavia	Altia Industrial	Unallocated and adjustments	Group
	1 Jan–31 Dec 2018				
Net sales, total	134.4	118.6	149.8		402.8
Net sales, Internal	-0.6	-0.9	-44.0		-45.5
Net sales, external	**133.8**	**117.7**	**105.8**		**357.3**
Comparable EBITDA	19.2	10.1	10.9	-0.3	40.0
Items affecting comparability[1]					-6.0
EBITDA					**34.0**
Depreciation, amortisation and impairment					-14.4
OPERATING RESULT					**19.7**

[1] Items affecting comparability comprise of material items incurred outside normal business, such as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development. Gains on sale of property, plant and equipment and intangible assets are presented in Note 1.3 and employee costs related to restructuring in Note 1.5.

Other entity-wide disclosures

Net sales by geography

Net sales broken down by the location of Altia entity for the years ended 31 December 2019 and 2018 were as follows:

EUR million	2019	2018
Finland	211.7	205.4
Sweden	97.2	90.7
Norway	22.6	23.5
Estonia	9.3	8.7
Latvia	10.1	9.8
Denmark	2.8	11.7
Other countries	5.9	7.5
NET SALES, TOTAL	**359.6**	**357.3**

In Finland & Exports segment, net sales of EUR 74.9 million (2018: EUR 77.4 million) were derived from a single external customer. In Scandinavia segment, net sales of EUR 81.8 million (2018: EUR 75.4 million) were derived from a single external customer. In Altia Industrial segment, net sales of EUR 43.7 million (2018: EUR 42.5 million) were derived from a single external customer. No other single external customer represented more than 10 per cent or more of Altia's total net sales for the years ended 31 December 2019 or 2018.

Net sales by product category

Net sales broken down by product category for the years ended 31 December 2019 and 2018 were as follows:

EUR million	2019	2018
Spirits	121.3	124.0
Wine	124.9	122.2
Other beverages	3.1	5.3
Industrial products and services	110.2	105.8
NET SALES BY PRODUCT CATEGORY, TOTAL	**359.6**	**357.3**

Non-current assets by geography

The total of non-current assets other than financial instruments and deferred tax assets broken down by the location of the assets as at 31 December 2019 and 2018 were as follows:

EUR million	2019	2018
Finland	110.6	112.5
Sweden	48.2	44.0
Norway	0.5	0.0
Estonia	2.2	2.3
Latvia	0.2	0.2
Denmark	5.9	6.5
Other countries	9.0	9.4
NON-CURRENT ASSETS BY GEOGRAPHY, TOTAL	**176.6**	**174.9**

1.3. OTHER OPERATING INCOME

Other operating income mainly includes gains on the disposal of non-current assets, income from sale of energy, water, steam and carbon dioxide, gains on sale of emission allowances, rental income and related non-core business service income and contract termination fees.

EUR million	2019	2018
Gains on sale of property, plant and equipment and intangible assets	0.0	0.5
Gains on sale of emission allowances	0.8	0.4
Rental income	1.3	1.4
Income from sale of energy, water, steam and carbon dioxide	3.4	3.4
Other income	2.0	1.6
TOTAL	**7.6**	**7.4**

1.4. MATERIALS AND SERVICES

EUR million	2019	2018
Raw materials, consumables and goods		
Purchases during the period	200.8	210.1
Change in inventories	7.6	-5.1
Scrapping and obsolescence and revaluation	3.2	0.0
External services	1.6	1.8
TOTAL	**213.1**	**206.8**

Materials and services consist of cost of material, such as barley, wine, different spirit, liquids, ground water as well as other ingredients needed for a variety of different drinks, packaging materials, production costs, changes in inventories, scrapping and obsolescence costs and external services such as logistics and warehousing.

1.5. EMPLOYEE BENEFIT EXPENSES

EUR million	2019	2018
Wages and salaries	34.2	37.9
Pension expenses		
Defined contribution plans	7.1	7.1
Share -based payments	0.1	-
Other social expenses	4.4	4.9
TOTAL	**45.9**	**49.9**

In Altia, the total wages and salaries of personnel consists of fixed and variable pay, allowances, short and long-term incentives and fringe benefits.

The group has recognised the total amount of incentives EUR 0.4 million (2018: EUR 1.6 million) in the form of cash bonuses. Employee benefit expenses include personnel related restructuring costs of EUR 0.2 million (2018: EUR 1.0 million). The group has recognized the total amount of EUR 1.6 million (2018: EUR 0.7 million) of closed voluntary pension scheme.

Average number of personnel during the period	2019	2018
Workers	272	274
Clerical employees	410	444
TOTAL	**682**	**718**

More information on the Group's pension plans is presented in Note 2.7.
Information of management remuneration is presented in Note 6.3. related party transactions.

1.6. OTHER OPERATING EXPENSES

EUR million	2019	2018
Losses on sales and disposals of property, plant and equipment and intangible assets	-	0.2
Rental expenses *)	1.6	5.7
Short-term lease expenses	0.2	-
Expenses for leases of low-value assets	0.2	-
Variable lease payments	1.2	-
Marketing expenses	12.3	13.7
Travel and representation expenses	2.7	3.0
Outsourcing services	8.9	10.5
Repair and maintenance expenses	6.8	6.9
Energy expenses	7.4	7.4
IT expenses	6.0	6.9
Variable sales expenses	12.5	12.6
Other expenses	6.9	7.1
TOTAL	**65.0**	**73.9**

Rental expenses 2019 are affected with the application of IFRS 16, which transferred most of the expenses to depreciations of right-of-use assets. Impact of IFRS 16 is described in Note 6.5.

Rental expenses 2018 included leases treated as operating lease. Payments made under operating lease were recognised as expenses on a straight-line basis over the lease term.

Auditor's fees included in other operating expenses	2019	2018
Audit fees	0.3	0.3
Tax consultation	0.0	0.0
Other fees	0.2	0.5
TOTAL	**0.5**	**0.8**

The table above presents fees to PricewaterhouseCoopers globally during the year. Non-audit fees to PricewaterhouseCoopers Oy in 2019 amounted to EUR 0.2 million.

1.7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation and amortisation by asset categories is as follows:

EUR million	2019	2018
Amortisation on intangible assets		
Trademarks	4.1	4.3
Software and other intangible assets	2.0	1.5
Total amortisation on intangible assets	**6.1**	**5.8**
Depreciation on property, plant and equipment		
Buildings	3.4	3.3
Machinery and equipment	4.7	5.0
Machinery and equipment, acquired through finance leases	-	0.2
Other tangible assets	0.0	0.0
Total depreciation on property, plant and equipment	**8.1**	**8.6**
Depreciation on right-of-use assets		
Buildings	2.5	-
Machinery	1.2	-
Total depreciation on right-of-use assets	**3.7**	**-**
TOTAL DEPRECIATION AND AMORTISATION	**17.9**	**14.4**

Group's depreciation and amortisation methods and periods are described in Note 2.1. Goodwill and other intangible assets, Note 2.2. Property, plant and equipment and Note 2.3. Leases.

1.8. RESEARCH AND DEVELOPMENT EXPENDITURES

Operating result includes research and development expenditures amounting to EUR 2.3 million (2018: EUR 3.3 million). The R&D expenditures represents 0.6% of net sales in 2019 (2018: 0.9%).

Inventories
92.0
MEUR

2. Operative assets and liabilities

2.1. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets other than goodwill are recorded at historical costs and depreciated over their useful lives. Intangible assets include goodwill, trademarks, software and other intangible assets and prepayments.

Goodwill

Goodwill arising on the business acquisition is recognised as the excess of the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

For the purpose of impairment testing, goodwill is allocated to the groups of cash-generating units (CGU) that are expected to benefit from the business combinations in which the goodwill was generated. Impairment testing is described in more detail later in this note.

Other intangible assets

Other intangible assets include intangible rights, other intangible assets and prepayments for intangible assets. Intangible assets such as patents and IT-software, with finite useful lives, are recognised in the balance sheet at the original acquisition cost less accumulated amortisation and possible impairment.

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives.

The estimated useful lives of intangible assets are as follows:

Trademarks	10–15 years
IT-development and software	3–5 years

The costs related to the intangible assets are capitalised if it can be demonstrated that the asset will generate the future economic benefits, the entity controls the asset and the cost of the asset can be measured reliably. All other expenditure is recognised as an expense as incurred.

Expenditure on research activities is recognised in profit or loss in the period in which it is incurred. The Group has no projects related to the development activities of new products or processes qualifying for the identifiability and other criteria regarding capitalisation under IFRS.

Accounting for emission allowances is described in Note 6.2. Emission allowances are presented as off-balance sheet items.

Critical estimates and management judgements – Useful lives of trademarks

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives. Management has estimated the useful lives of trademarks to be in a range from 10 to 15 years. However, the actual useful life may be shorter or longer than the estimated range depending on the market trends and customer behavior.

GOODWILL AND OTHER INTANGIBLE ASSETS

EUR million	Goodwill	Trademarks	Software and other intangible assets	Prepayments	Other intangible assets total
Acquisition cost at 1 January 2019	128.0	123.8	21.8	1.7	147.3
Additions	-	0.1	0.0	1.8	2.0
Disposals	-	-0.1	-	-	-0.1
Effect of movement in exchange rates	0.3	-1.1	-0.0	-	-1.1
Transfers between items	-	-	1.6	-1.6	0.0
Acquisition cost at 31 December 2019	128.3	122.8	23.4	2.0	148.1
Accumulated amortisation and impairment losses at 1 January 2019	-47.3	-101.2	-16.5	-	-117.8
Amortisation	-	-4.1	-2.0	-	-6.1
Accumulated amortisation on disposals and transfers	-	0.1	-	-	0.1
Effect of movement in exchange rates	-0.9	0.9	0.0	-	0.9
Accumulated amortisation and impairment losses at 31 December 2019	-48.2	-104.5	-18.5	-	-123.0
Carrying amount at 1 January 2019	80.7	22.6	5.3	1.7	29.6
CARRYING AMOUNT AT 31 DECEMBER 2019	**80.1**	**18.3**	**4.9**	**2.0**	**25.2**

EUR million	Goodwill	Trademarks	Software and other intangible assets	Prepayments	Other intangible assets total
Acquisition cost at 1 January 2018	133.3	126.7	19.3	2.8	148.7
Additions	-	-	0.0	1.5	1.5
Disposals	-	-	-0.0	-	-0.0
Effect of movement in exchange rates	-5.3	-2.9	-0.0	-	-2.9
Transfers between items	-	0.1	2.5	-2.6	0.0
Acquisition cost at 31 December 2018	128.0	123.8	21.8	1.7	147.3
Accumulated amortisation and impairment losses at 1 January 2018	-51.3	-99.3	-15.1	-	-114.4
Amortisation	-	-4.3	-1.5	-	-5.8
Accumulated amortisation on disposals and transfers	-	-	0.0	-	0.0
Effect of movement in exchange rates	4.0	2.4	0.0	-	2.4
Accumulated amortisation and impairment losses at 31 December 2018	-47.3	-101.2	-16.5	-	-117.8
Carrying amount at 1 January 2018	82.1	27.4	4.2	2.8	34.4
CARRYING AMOUNT AT 31 DECEMBER 2018	**80.7**	**22.6**	**5.3**	**1.7**	**29.6**

The most significant trademarks include Renault, Larsen, Xanté, Blossa, Chill Out, Explorer, Grönstedts, Bröndums, 1-Enkelt and Arsenitch.
Software and other intangible assets are mainly computer software.

Impairment testing

Book value of assets are assessed to determine whether there are any impairment at least at the end of each financial year. If any evidence of impairment emerges (a triggering event), the assets' recoverable amount is estimated. The recoverable amount is determined on the basis of value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is immediately recognised in profit or loss and the estimated useful life of the asset in question is reassessed when an impairment loss is recognised. The recoverable amounts of goodwill and intangible assets not yet available for use are estimated annually. The need for recognising an impairment loss is assessed at cash-generating unit level. This level is essentially independent from other units with separate cash flows.

The impairment loss is reversed if there has been such a positive change in the estimates used to determine the recoverable amount of the asset or cash-generating unit that recoverable amount of the asset will increase the book value of asset. Impairment losses are only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. An impairment loss on goodwill is never reversed.

Critical estimates and management judgements – Impairment testing:

The preparation of calculations for the impairment testing of goodwill requires estimates regarding the future. The management's estimates and related critical uncertainties are related to the components of the recoverable amount calculation, including the discount rate, the terminal growth rate and development of the net sales and operating result, including estimated cost levels of main raw materials and energy. The discount rates reflect current assessments of the time value of money and relevant market risk premiums reflecting risks and uncertainties for which the future cash flow estimates have not been adjusted. The discount rates used, expected net sales growth rates and profitability levels, including sensitivity analyses, are stated below.

Impairment testing of goodwill

Allocation of goodwill

Goodwill is allocated to groups of cash-generating units (CGU) that represent the level on which the management monitors the goodwill.

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments. Goodwill is monitored by management at the level of the operating segments.

A segment-level allocation of the goodwill at 31 December 2019 and 2018 is presented below:

EUR million	2019	%	2018	%
Finland & Exports	46.7	58.3 %	46.8	58.0 %
Scandinavia	33.4	41.7 %	33.9	42.0 %
TOTAL	**80.1**	**100.0 %**	**80.7**	**100.0 %**

Impairment testing

The key assumptions in impairment testing are operating result and discount rate.

The goodwill allocated to the Group's cash-generating units is tested for impairment annually or when there is reason to assume that the carrying amount has exceeded the recoverable amount, with the carrying amount compared to the recoverable amount in the testing. The annual impairment tests have been carried out on 31 October 2019 and 31 October 2018. At the time of testing, the companies did not have intangible assets with indefinite useful lives other than goodwill.

The cash flow estimates used are based on CGU-specific financial plans for the following year approved by the Group's management. The forecast period applied for the calculations covers five years, beyond which the cash flow projections are extrapolated using a constant market-specific growth rate estimate. The forecasted cash flows for a longer term than this have been estimated by using an annual growth rate estimate of -0.5%. In the view of the management, these growth estimates represent the development of business operations in the longer term pursuant to the forecasts.

The market-specific WACC estimates are based on external market-specific references. Management makes judgements regarding the development of assumptions other than WACC based on internal and external views of the industry's history and future.

The weighted average costs of capital used as discount rates for the cash flow estimates are presented in the enclosed table:

Used pre-tax discount rate %	2019	2018
Finland & Exports	6.4%	7.1%
Scandinavia	6.0%	6.8%

The estimated average operating margins used in the calculations are presented in the enclosed table:

Projected average operating result %	2019	2018
Finland & Exports	13.1%	13.1%
Scandinavia	8.1%	8.7%

Based on the analyses prepared by the company, no reasonably possible change in any of the key assumptions would cause any of the tested unit's recoverable amount to decrease to be equal to its carrying amount.

2.2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

Property, plant and equipment mainly consist of manufacturing and warehouse buildings, land, and machinery and equipment used in alcoholic beverage industry. Property, plant and equipment are measured at historical cost less accumulated depreciation and possible impairment losses. If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. The subsequent costs related to the items of property, plant and equipment are capitalised only if the future economic benefits exceed the originally assessed standard of performance. All other expenditure, for example ordinary maintenance and repair costs, is recognised as an expense as incurred. Depreciation is recognised on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated.

Government grants, for example grants received from the State, are recognised in profit or loss in the same period in which the related expenses are recognised. Grants that compensate the Group for the acquisition of property, plant and equipment are deducted from the carrying amount adjusted with the grant received.

Investment properties are properties held by the Group in order to earn rental income or for capital appreciation. Investment properties are measured at cost less accumulated depreciation and impairment losses. Fair values of investment properties are determined based on a valuation carried out by an external property valuator.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10–40 years
Machinery and equipment	10 years
Other tangible assets	3–10 years

The estimated useful lives and residual values are reviewed at each financial year-end, and if they differ substantially from the previous estimates, the depreciation periods are adjusted accordingly. Impairment loss is recognised in profit or loss to the extent the assets carrying value exceeds its recoverable amount.

Gains and losses on the disposals of property, plant and equipment are included in other operating income or expenses.

PROPERTY, PLANT AND EQUIPMENT

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and assets under construction	Total
Acquisition cost at 1 January 2019	3.0	109.5	129.8	0.8	1.5	244.6
Additions	-	0.1	0.4	-	4.3	4.8
Disposals	-	-	-1.3	-0.0	-	-1.3
Effect of movement in exchange rates	-	-0.0	-0.1	-0.0	-	-0.1
Transfers between items	-	1.8	2.4	-	-4.3	0.0
Acquisition cost at 31 December 2019	3.0	111.3	131.3	0.8	1.6	247.9
Accumulated depreciation and impairment losses at 1 January 2019	0.0	-82.4	-97.4	-0.2	-	-179.9
Depreciation	-	-3.4	-4.7	-0.0	-	-8.1
Accumulated depreciation on disposals and transfers	-	-	0.9	0.0	-	1.0
Effect of movement in exchange rates	-	0.0	0.1	-	-	0.1
Accumulated depreciation and impairment losses at 31 December 2019	0.0	-85.8	-101.1	-0.2	-	-187.0
Carrying amount at 1 January 2019	3.0	27.1	32.4	0.6	1.5	64.6
CARRYING AMOUNT AT 31 DECEMBER 2019	**3.0**	**25.6**	**30.2**	**0.6**	**1.6**	**60.9**
Acquisition cost at 1 January 2018	3.0	108.2	124.0	0.8	4.7	240.7
Additions	-	0.1	0.7	0.0	5.4	6.2
Disposals	-0.0	-0.5	-1.6	-	-	-2.1
Effect of movement in exchange rates	-	-0.0	-0.2	-0.0	-	-0.3
Transfers between items	-	1.7	6.9	-	-8.6	0.0
Acquisition cost at 31 December 2018	3.0	109.5	129.8	0.8	1.5	244.6
Accumulated depreciation and impairment losses at 1 January 2018	0.0	-79.5	-93.7	-0.1	-	-173.3
Depreciation	-	-3.3	-5.3	-0.0	-	-8.6
Accumulated depreciation on disposals and transfers	-	0.5	1.4	-	-	1.9
Effect of movement in exchange rates	-	0.0	0.1	-	-	0.2
Accumulated depreciation and impairment losses at 31 December 2018	0.0	-82.4	-97.4	-0.2	-	-179.9
Carrying amount at 1 January 2018	3.0	28.7	30.3	0.6	4.7	67.4
CARRYING AMOUNT AT 31 DECEMBER 2018	**3.0**	**27.1**	**32.4**	**0.6**	**1.5**	**64.6**

At 31 December 2018 the carrying amount of machinery and equipment included EUR 0.4 million financial leases (original acquisition value EUR 1.2 million). With transition to IFRS 16 at January 1 2019 the financial leases were derecognized from balance sheet according to exemptions allowed by the standard.

2.3. LEASES

Leases

Lease is a contract, or a part of a contract that conveys the right to use an asset for a period of time in exchange for consideration. A contract contains a lease if there is a an identified asset and the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Altia mainly acts as the lessee. The Group's leases are related to normal business operations, such as leases on facilities, warehouses, vehicles, forklifts and office technology. The new standard removes the previous distinction between operating and finance leases. In accordance with the new standard, an asset item (right of use of the leased asset) and a financial liability concerning lease payments have been recognised for most of Altia's leases.

The lease liability is measured by discounting the expected lease payments to the current value. Lease payments include fixed lease payments, expected payments related to residual value guarantees and the possible exercise price of the purchase option if the use of the option is reasonably certain. The lease period is the non-cancellable period of the lease. Any extension options are added to the lease period if it is reasonably certain that the Group will exercise such options.

Lease payments are discounted at the internal rate of return of the lease if that rate can be readily determined. If an internal rate of return cannot be readily determined, the interest rate for additional credit is used as the discount rate. The criteria used to determine the discount rate includes the class of the underlying asset, geographical location, currency, the maturity of the risk-free interest rate and the lessee's credit risk premium.

The lease liability is remeasured and adjusted against the right of used asset if the cash flow in accordance with the original terms and conditions of lease changes; for example, if the lease period changes or if the lease payments change based on a variable index or interest rate. The lease liability is divided into current and non-current liability and is presented on a separate line on the balance sheet.

Right-of-use assets are measured at acquisition cost based on the amount of the initial measurement of the lease liability. Right-of-use assets are depreciated over the lease period or their useful lives, depending on which is shorter. Right -of use assets related to buildings are depreciated in 2–6 years and right-of -use assets related to machinery and equipment are depreciated in 2–6 years.

Right-of-use assets related to tangible assets are presented on a separate line on the balance sheet.

The IFRS 16 standard includes exemptions concerning leases of less than 12 months and low-value assets. Altia treats leases with less than 12 months remaining of the lease period at the time of transition as current underlying asset items that are not recognised on the balance sheet. The selection is made based on the class of the underlying asset. Exemptions apply to all underlying asset items other than vehicles and offices, which are recognised on the balance sheet even if their remaining lease period is less than 12 months at the time of transition. Lease liabilities are not recognised for low-value assets. Altia considers assets with an acquisition cost of less than EUR 5,000 to be low-value. Finance leases included in exemptions as short-term or low value were derecognized from balance sheet. Lease expenses related to leases included in the exemptions are recognised in equal instalments over the lease period.

RIGHT-OF-USE ASSETS

EUR million	Buildings	Machinery and equipment	Total
IFRS 16 acquisition cost at 1 January 2019	8.6	2.1	10.7
Additions	2.4	1.1	3.5
Disposals	-	-0.1	-0.1
Effect of movement in exchange rates	-0.1	-0.0	-0.1
Acquisition cost at 31 December 2019	10.9	3.1	14.1
Depreciation	-2.5	-1.2	-3.7
Accumulated depreciation on disposals	-	0.0	0.0
Effect of movement in exchange rates	-0.0	-0.0	-0.0
Accumulated depreciation at 31 December 2019	-2.6	-1.1	-3.7
CARRYING AMOUNT AT 31 DECEMBER 2019	**8.4**	**2.0**	**10.4**

2.4. INVENTORIES

Inventories

Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices, except cognac products, which are measured at weighted average cost. Fixed production costs are allocated to the cost of own production.

Raw materials, supplies and trading goods are measured at weighted average cost. Semi-finished products are measured at weighted average cost, except semi-finished products produced in Estonia, which are measured at standard prices. Repacked trading goods are measured at standard cost in repacking plant.

The cost of finished products and work in progress includes raw materials, direct labour costs, other direct costs as well as an allocable proportion of variable procurement and production costs and fixed overheads in case of finished products, determined based on normal operating capacity.

Net realisable 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.

INVENTORIES

EUR million	2019	2018
Materials and supplies	49.6	53.8
Work in progress	10.5	10.5
Finished goods	13.5	15.9
Goods	18.3	19.3
Advance payments	0.3	0.2
TOTAL	**92.0**	**99.6**

Altia recognised write-downs of inventories amounting to EUR 1.9 million in 2019 (2018: EUR 1.3 million).

2.5. CONTRACT ASSETS AND LIABILITIES (CURRENT)

Contract assets represent the amount which Altia has right to receive goods expected to be returned to inventory with respect to return clauses in the contracts. Contract assets are measured at the former carrying amount of the inventory less any expected costs to recover the goods and less any impairment losses.

Contract liabilities represent the amount received or receivable that is expected to be returned as a refund liability.

EUR million	2019	2018
Contract assets	0.2	0.2
TOTAL	**0.2**	**0.2**
Contract liabilities	0.5	0.6
TOTAL	**0.5**	**0.6**

2.6. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade and other receivables

Trade receivables are carried at original invoiced amount less any impairment losses. An impairment loss is recognized immediately in profit and loss. Impairment provisions are recognized based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. The expected credit loss model is forward looking and expected default rates are based on historical realized credit losses. The lifetime expected credit loss provision is calculated using aging of the accounts receivable and regional portfolios.

Sold trade receivables are derecognised from the balance sheet as soon as the receivable is sold and the price has been received. At the time of sale, the Group derecognises the trade receivable as the contractual rights to these cash flows expire and all the related substantial risks and rewards have been transferred outside the Group. The costs related to the sold receivables are recognised in Other finance expenses.

TRADE AND OTHER RECEIVABLES

EUR million	2019	2018
Trade receivables	48.1	55.4
Accrued income	3.2	1.7
Receivables on derivative instruments	0.4	1.6
Other receivables	2.8	2.3
TOTAL	**54.4**	**60.9**

At the end of the reporting period 2019 the sold trade receivables amounted to EUR 76.7 million (2018: EUR 80.2 million). Trade receivables from associated companies and joint arrangements are presented in Note 6.3.

AGEING ANALYSIS OF TRADE RECEIVABLES

EUR million	2019	2018
Trade receivables not past due	42.7	50.7
Trade receivables past due 1-90 days	4.8	4.4
Trade receivables past due over 90 days	0.8	0.5
Impairment losses	-0.2	-0.3
TOTAL	**48.1**	**55.4**

The realized impairment losses recognized on trade receivables during the year 2019 amounted to EUR 0.0 million (2018: EUR 0.1 million).

The loss allowance for trade receivables is based on the ageing of the accounts receivable and regional portfolios. The expected loss rate for all trade receivables is 0,1% and in addition receivables more than 120 days due are impaired with 60% expected loss rate. The receivables of the monopolies in Finland and Sweden are excluded due to the nature of the customer and related credit risk (government entities). Forward looking macro-economic information has been included in the analysis.

2.7. EMPLOYEE BENEFIT OBLIGATIONS

Group's pension arrangements

The Group operates various pension plans in accordance with local conditions and practices in different countries. In the Finnish companies, statutory pension obligations (TyEL) are arranged through insurance companies, when the TyEL plan is a defined contribution plan. The defined contribution plans are applied also in other countries and the foreign subsidiaries manage their pension plans in accordance with local legislation and established practice.

The Group has defined benefit pension plans for supplementary pension in Norway and France.

In defined benefit pension plans, the amount of the pension benefit at retirement is calculated based on salary, years of service and life expectancy. The Norwegian and French pension plans cover only few employees, thus the related pension liabilities are not material for the Group. At the end of the reporting period 2019 the defined benefit plan obligation amounted to EUR 1.4 million (2018: EUR 1.3 million).

2.8. TRADE AND OTHER PAYABLES

EUR million	2019	2018
Current		
Trade payables	25.7	25.8
Accruals for wages and salaries and social security contributions	0.9	1.1
Interest liabilities	0.3	0.3
Other accrued expenses	24.1	18.6
Derivative liabilities	1.7	1.5
Excise tax	47.0	48.8
VAT liability	27.9	27.6
Other liabilities	7.1	7.6
TOTAL	**134.7**	**131.4**

2.9. PROVISIONS

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. The amount recognised as provision is the management's best estimate of the costs required to settle the existing obligation at the end of the reporting period. If part of the obligation may potentially be compensated by a third party, the compensation is recognised as a separate asset when it is virtually certain that the compensation will be received.

A provision for restructuring is recognised when a detailed restructuring plan has been prepared, and the implementation of the plan has either been commenced or the plan has been announced to those who are affected.

PROVISIONS

EUR million	Other provisions	Total
Provision at 31 December 2018	0.5	0.5
Provisions made during the year	-	-
Provisions used during the year	-0.5	-0.5
PROVISION AT 31 DECEMBER 2019	**-**	**-**
Current	-	-
Non-Current	-	-

EUR million	Other provisions	Total
Provision at 31 December 2017	-	-
Provisions made during the year	0.5	0.5
Provisions used during the year	-	-
PROVISION AT 31 DECEMBER 2018	**0.5**	**0.5**
Current	0.5	0.5
Non-Current	-	-

Other provisions end of comparison period 2018 related to the cost on excise tax class revision of two products based on a preliminary outcome of a tax audit In Finland. The final outcome of the tax audit was positive and provision was released in full 2019.

Borrowings and lease liabilities
93.1
MEUR

3. Financial items and capital structure

3.1. FINANCE INCOME AND EXPENSES

FINANCE INCOME

EUR million	2019	2018
Interest income		
Forward points on FX-forwards	0.0	-
Loans, receivables and cash and cash equivalents	0.2	0.1
Total interest income	**0.2**	**0.1**
Foreign exchange gains		
Foreign exchange gains on FX-derivatives	0.8	1.2
Foreign exchange gains on I/C loans and cash pool accounts	2.5	2.1
Total foreign exchange gains	**3.3**	**3.3**
Dividend income		
Fair value through other comprehensive income	-	0.1
Total dividend income	**-**	**0.1**
TOTAL FINANCE INCOME	**3.5**	**3.5**

Foreign exchange differences arising from trade receivables and trade payables amounting to EUR 0.1 million (2018: EUR -0.2 million) and from currency derivatives amounting to EUR 0.9 million (2018: EUR 1.7 million) are included in operating result.

FINANCE EXPENSES

EUR million	2019	2018
Interest expenses		
Forward points on FX-forwards	-0.0	0.0
Financial liabilities at amortised cost	1.1	1.3
Derivatives under hedge accounting (Interest rate risk)	0.4	0.4
Interest expenses on lease liabilities	0.1	-
Other interest expenses, pension liability	0.0	0.0
Total interest expenses	**1.6**	**1.7**
Foreign exchange losses		
Foreign exchange losses on FX-derivatives	2.1	2.0
Foreign exchange losses on I/C loans and cash pool accounts	1.2	1.4
Total foreign exchange losses	**3.3**	**3.4**
Other finance expenses		
Other financial expenses	0.7	0.8
Total other finance expenses	**0.7**	**0.8**
TOTAL FINANCE EXPENSES	**5.7**	**5.8**

Interest expenses included finance lease related interest expenses amounting to EUR 0.1 million in 2019.

3.2. FINANCIAL ASSETS AND LIABILITIES

3.2.1 FINANCIAL ASSETS

According to IFRS 9 the classification is business model driven and there are three classes: fair value through profit and loss, amortised cost and fair value through other comprehensive income. Classification is made upon initial recognition based on the purpose of use of the asset. The basis of classification is reassessed at each reporting date.

All purchases and sales of financial instruments are recognised on the trade date, which is the date when the Group commits to purchase or sell a financial instrument. Financial assets are recognised in the balance sheet at original cost which equals their fair value at the acquisition date. If the asset in question is not measured at fair value through profit or loss, transaction costs are included in the original cost of the financial asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or the Group transfers all the substantial risks and rewards related to the financial asset outside the Group. Financial assets are included in non-current items of the balance sheet when their maturity is over 12 months.

Impairment of financial assets

The impairment model requires the recognition of impairment provision based on expected credit losses. The impairment provision is recognised based on lifetime expected credit losses from trade receivables and contract assets. More information on the impairment provision on trade receivables can be found in Note 2.6. Trade and other receivables (current).
The impairment model does not apply to financial assets measured at fair value and investments in associates and joint ventures and interests in joint operations since those are measured at fair value which already takes into account expected credit losses.

Financial assets recognised at fair value through profit or loss

This category includes financial assets held for trading purposes or otherwise designated as financial assets recognised at fair value through profit or loss by Altia Group. Derivative instruments held for hedging purposes, but not qualifying for the criteria of hedge accounting, are classified in this category. Items in this category are initially recognised at fair value and subsequently measured at the fair value of each reporting date, which is the market bid price at the end of the reporting period determined based on public price quotations in active markets. Realised and unrealised gains and losses arising from changes in fair values are recognised in profit or loss in financial items in the period in which they are incurred if they relate to hedging of financial items.

Amortised cost

Loans and receivables arise when money, goods or services are delivered to a debtor, and they are included in current or non-current financial assets in accordance with their maturity. The assets in this category are held according to a business model of which objective is to collect contractual cash flows. In Altia, non-current receivables include loan receivables and other receivables with the maturity of over one year. Current receivables include trade receivables as well as cash and cash equivalents presented under current financial assets. Receivables are measured at amortised cost when the related payments are fixed or determinable and the instruments are not quoted in financial markets. The exchange rate differences of intra-group foreign currency denominated loan receivables are presented within financial items as foreign exchange differences related to loans. The exchange rate differences of foreign currency denominated trade receivables are presented in income statement as adjustments to sales.

Fair value through other comprehensive income

These assets are non-derivative financial assets which are either designated in this category or not classified in any other category of financial assets. These are included in non-current assets, unless they are intended to be held less than 12 months from the end of the reporting period, in which case they are included in current assets.

Financial assets measured at fair value through other comprehensive income consist of unquoted shares. Unquoted shares are measured at fair value based on market approach valuation techniques using information from market transactions involving comparable assets.

Fair value through other comprehensive income

Fair value through other comprehensive income assets consisted of unquoted shares, amounting to EUR 1.4 million (2018: EUR 1.4 million).

3.2.2 FINANCIAL LIABILITIES

Financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Financial liabilities are initially measured at fair value and recognised net of transaction costs, with the exception of items measured at fair value through profit or loss.

A financial liability (or a part of it) is not derecognised until the obligation specified in the contract is discharged or cancelled or expires. A financial liability is classified as current, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the end of the reporting period.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives held for hedging purposes but not qualifying for hedge accounting. Financial liabilities in this category are measured at fair value, which is determined based on price quotations in active markets at the reporting date. Realised and unrealised gains or losses arising from the changes in fair values are recognised through profit or loss in the financial items as incurred.

Financial liabilities at amortised cost

This category includes the Group's external loans from financial institutions, loans from pension institutions, commercial paper loans as well as trade payables. These financial liabilities are measured at amortised cost using the effective interest method. When loans are paid off or refinanced, the related unamortised costs are recognised in finance expenses. Group overdrafts in use are included in current borrowings. In addition, Altia has a revolving credit facility and the related fee is amortised on a straight-line basis in other finance expenses during the term of the facility.

The exchange rate differences arising from foreign currency denominated loans from financial institutions are disclosed under financial items. The exchange rate differences of intra-group foreign currency denominated loans are presented within financial items in the foreign exchange differences of the category financial liabilities at amortised cost.

The fair values of loans from financial institutions and commercial paper loans are determined based on future cash flows discounted with market interest rate at the reporting date adjusted with Altia's credit risk premium. At the reporting date, the carrying amounts of the loans are considered to equal their fair values because of the stable level of market interest rates. The fair values of lease and finance lease liabilities are based on discounted future cash flows. The discount rate is internal rate of return of the lease or interest rate for additional credit.

BORROWINGS AND LEASE LIABILITIES

EUR million	2019	2018
Non-current		
Loans from financial institutions	64.8	69.8
Loans from pension institutions	11.3	12.8
Lease liabilities	7.1	-
Finance lease liabilities	-	0.2
TOTAL	**83.2**	**82.7**
Current		
Loans from financial institutions	5.0	5.0
Loans from pension institutions	1.5	1.5
Lease liabilities	3.4	-
Finance lease liabilities	-	0.2
TOTAL	**9.9**	**6.7**

Interest-bearing non-current loans from financial and pension institutions are measured at amortised cost using the effective interest method.

All of the Group's non-current and current loans from financial and pension institutions were nominated in Euros as at 31 December 2019 and 31 December 2018.

The weighted average effective interest rate (p.a.) of the Group's loans from financial and pension institutions as at 31 December 2019 was 1.9% (2018: 1.9%).

The weighted average interest rate (p.a.) of the Group's lease liabilities as at 31 December 2019 was 1.2% (finance lease liabilities as at 31 December 2018: 1.2%).

NET DEBT

Movements in Net debt the year ended 31 December 2019 and 2018 are presented in the following table:

EUR million	Cash and cash equivalents	Loans from financial and pension instituti-ons (non-current)	Loans from financial and pension instituti-ons (current)	Lease liabilities (non-current)	Lease liabilities (current)	Finance lease liabilities (non-current)	Finance lease liabilities (current)	Total
Net debt as at 1 January 2019	42.0	82.5	6.5	-	-	0.2	0.2	47.4
Adoption of IFRS 16	-	-	-	7.4	3.3	-	-	10.7
Cash flows	22.7	-	-6.5	-	-3.7	-	-	-29.2
Translation differences	-0.5	-	-	-	-	-	-	0.5
Other non-cash movement	-	-6.4	6.5	-0.3	3.8	-0.2	-0.2	-0.3
NET DEBT AS AT 31 DECEMBER 2019	**64.2**	**76.1**	**6.5**	**7.1**	**3.4**	**-**	**-**	**28.9**
Net debt as at 1 January 2018	52.4	89.0	10.8	-	-	0.2	0.2	47.7
Cash flows	-8.2	-	-10.7	-	-	-	-0.2	-2.7
Translation differences	-2.2	-	-	-	-	0.0	-	2.2
Other non-cash movement	-	-6.4	6.4	-	-	0.0	0.2	0.2
NET DEBT AS AT 31 DECEMBER 2018	**42.0**	**82.5**	**6.5**	**-**	**-**	**0.2**	**0.2**	**47.4**

Derivative instruments

Derivatives are included in financial assets and liabilities at fair value through profit or loss when they do not meet the criteria of hedge accounting pursuant to IFRS 9. These derivatives are recognised at fair value on the trade date and they are subsequently measured at fair value at the reporting date. Derivative instruments and hedge accounting are described in Note 3.3.

The fair values of derivatives equal the amount that the Group would have to pay, or it would receive from the termination of the derivative contract at the reporting date. The fair values of forward exchange contracts are determined by using the market prices at the reporting date. The fair values of interest rate derivatives are determined by discounting the related future cash flows. The valuation of commodity derivatives is determined based on the fair values received from the financial markets.

3.2.3. CLASSIFICATION AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

FAIR VALUES AND THE CARRYING AMOUNTS IN THE CONSOLIDATED BALANCE SHEET FOR EACH FINANCIAL INSTRUMENT BY CLASSES:

2019 EUR million	Note	Derivatives, hedge accounting	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amounts of items in the balance sheet	Fair value	Level
Financial assets								
Non-current financial assets								
Investments in associates and receivables from interests in joint operations		-	-	8.8	-	8.8	8.8	
Unquoted shares	3.2.1.	-	-	-	1.4	1.4	1.4	3
Current financial assets								
Trade and other receivables	2.6.	-	-	49.3	-	49.3	49.3	
Trade and other receivables/Derivative instruments								
Forward exchange contracts	2.6.	0.0	0.0	-	-	0.0	0.0	2
Commodity derivatives	2.6.	0.3	-	-	-	0.3	0.3	2
Cash and cash equivalents	4.1.	-	-	64.2	-	64.2	64.2	
TOTAL		**0.3**	**0.0**	**122.3**	**1.4**	**124.1**	**124.1**	
Financial liabilities								
Non-current financial liabilities								
Borrowings	3.2.2.	-	-	76.1	-	76.1	76.1	2
Lease liabilities	3.2.2.	-	-	7.1	-	7.1	7.1	2
Current financial liabilities								
Borrowings	3.2.2.	-	-	6.5	-	6.5	6.5	2
Lease liabilities	3.2.2.	-	-	3.4	-	3.4	3.4	2
Trade and other payables	2.8.	-	-	25.9	-	25.9	25.9	
Trade and other payables/Derivative instruments								
Interest rate derivatives	2.8.	1.2	-	-	-	1.2	1.2	2
Forward exchange contracts	2.8.	0.4	0.1	-	-	0.5	0.5	2
TOTAL		**1.6**	**0.1**	**119.0**	**-**	**120.7**	**120.7**	

2018 EUR million	Note	Derivatives, hedge accounting	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amounts of items in the balance sheet	Fair value	Level
Financial assets								
Non-current financial assets								
Receivables from interests in joint operations		-	-	7.9	-	7.9	7.9	
Unquoted shares	3.2.1.	-	-	-	1.4	1.4	1.4	3
Current financial assets								
Trade and other receivables	2.6.	-	-	56.6	-	56.6	56.6	
Trade and other receivables/Derivative instruments								
Forward exchange contracts	2.6.	0.1	0.1	-	-	0.2	0.2	2
Commodity derivatives	2.6.	1.3	-	-	-	1.3	1.3	2
Cash and cash equivalents	4.1.	-	-	42.0	-	42.0	42.0	
TOTAL		**1.4**	**0.1**	**106.5**	**1.4**	**109.5**	**109.5**	
Financial liabilities								
Non-current financial liabilities								
Borrowings	3.2.2.	-	-	82.7	-	82.7	82.7	2
Current financial liabilities								
Borrowings	3.2.2.	-	-	6.7	-	6.7	6.7	2
Trade and other payables	2.8.	-	-	26.0	-	26.0	26.0	
Trade and other payables/Derivative instruments								
Interest rate derivatives	2.8.	1.3	-	-	-	1.3	1.3	2
Forward exchange contracts	2.8.	0.1	0.0	-	-	0.1	0.1	2
TOTAL		**1.4**	**0.0**	**115.5**	**-**	**116.9**	**116.9**	

At the reporting date due to short maturity fair value of trade receivables and other short-term receivables and liabilities equal to their value in the balance sheet.

The table above presents the classification of financial instruments. The levels 1-3 of fair value hierarchy reflect the significance of inputs used in determining the fair values. In level one, fair values are based on public quotations of identical financial instruments. In level two, the inputs used in determining the fair values are based on quoted market rates and prices observable for the asset or liability in question directly (i.e. price) or indirectly on discounted future cash flows. Fair values of other financial assets and liabilities in level two reflect their carrying value. In level three, the fair values of assets and liabilities are based on inputs that are not based on observable market data for all significant variables, and instead are, to a significant extent, based on management estimates and their use in generally accepted valuation techniques. The reported fair value level is based on the lowest level of input information that is significant in determining the fair value.

3.3. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

When the Group applies IFRS 9 hedge accounting to foreign currency, interest rate and electricity derivatives, the effective portion of the fair value change is recognised in other comprehensive income and presented within equity in the hedge reserve.

When hedge accounting is applied

In Altia, cash flow hedging is applied to part of the interest rate, foreign currency and electricity derivatives based on case-by-case assessment. In cash flow hedging, the Group is hedging against changes in cash flows related to a specific asset or liability recognised in the balance sheet or to a highly probable future business transaction. Hedge accounting is a method of accounting with the purpose to allocate one or several hedging instruments so that their fair value changes offset in full or partly the changes in fair value or cash flow arising from the hedged risk in profit or loss during the period, for which the hedge is designated. In the beginning of the hedging arrangement, Altia documents the relationship between each hedging instrument and hedged item, as well as the objectives of risk management and the strategy in engaging in hedging. IFRS 9 requires that the effectiveness of hedging instruments is tested prospectively. Effectiveness means the ability of a hedging instrument to offset the changes in the fair value of the hedged item or changes in the cash flows of the hedged transaction attributable to the hedged risk. Under IFRS 9 the hedging relationship is regarded to be highly effective when there is an economic relationship between the hedged item and the hedging instrument. Hedging ratio is defined as a relationship between the quantity of the hedging instrument and the quantity of the hedged item. Hedge accounting is discontinued when the criteria for hedge accounting is no longer met.

The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied, are presented in congruence with the hedged item. Forward points are included to hedging relationship. The effective portion of the unrealised changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in other comprehensive income and presented in the hedge reserve in equity. The ineffective portion is immediately recognized in finance income or expenses in profit or loss. The cumulative gain or loss in equity on derivative instruments related to commercial items is recognised in profit or loss as an adjustment to purchases or sales simultaneously with the hedged item in the period in which the hedged item affects profit or loss. Realised gain or loss on electricity derivatives is included in operating result in electricity procurement expenses. When a hedging instrument designated as a cash flow hedge no longer meets the criteria of hedge accounting, the gain or loss accumulated in equity is recognised through finance income or expenses.

When hedge accounting is not applied

The accounting for gains and losses arising from fair value measurement is dependent on the purpose of use of the derivative. In Altia, the changes in the fair values of derivative instruments are immediately recognised in profit or loss in finance income or expense if the derivative in question is related to hedging of commercial cash flows (purchases and sales) and hedge accounting is not applied. The fair value changes of other derivative instruments are immediately recognised in profit or loss in finance income or expense items if hedge accounting is not applied. Derivatives, to which hedge accounting is not applied, are acquired to minimise the profit and/or cash flow effects related to business operations or financing.

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR million	2019	2018
Derivative instruments designated for cash flow hedging		
Interest rate derivatives	20.0	20.0
Forward exchange contracts	24.4	30.9
Commodity derivatives, electricity	1.3	1.9
	0.1TWh	0.1TWh
Derivative instruments, non-hedge accounting		
Forward exchange contracts	3.9	33.7*

*) Total EUR 29.3 million in nominal value relates to hedging internal deposits in currency to parent company amounting the same. These deposits were made in order to mitigate the effects of the banks' negative deposit rates.

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION AND PERFORMANCE

EUR million	EURAUD		EURUSD		EURNOK		EURSEK	
Foreign currency forwards	2019	2018	2019	2018	2019	2018	2019	2018
Carrying amount (asset)	0.0	-	-	0.0	-	0.0	-	-
Carrying amount (liability)	-	0.0	0.0	-	0.0	-	0.3	0.1
Notional amount	1.5	2.0	1.4	2.7	1.8	1.9	18.2	22.1
Maturity date	Feb-Dec 2020	Feb-Dec 2019	Feb-Jun 2020	Feb-Dec 2019	Feb-May 2020	Feb-Jun 2019	Feb-Aug 2020	Feb-Oct 2019
Hedge ratio	1:1	1:1	1:1	1:1	1:1	1:1	1:1	1:1
Change in discounted value of outstanding hedging instruments since 1 January	0.0	0.0	-0.1	0.1	-0.1	-0.1	-0.2	-0.7
Change in value of hedged item used to determine hedge effectiveness	-0.0	-0.0	0.1	-0.1	0.1	0.1	0.2	0.7

EUR million Interest rate swap	2019	2018
Carrying amount (liability)	1.2	1.3
Notional amount	20.0	20.0
Maturity date	04/2023	04/2023
Hedge ratio	1:1	1:1
Change in discounted value of outstanding hedging instruments since 1 January	-0.1	-0.1
Change in value of hedged item used to determine hedge effectiveness	0.1	0.1
Weighted average hedged rate for the year	1.99%	1.88%

EUR million Commodities – Electricity	2019	2018
Carrying amount (asset)	0.3	1.3
Notional amount	1.3	1.9
TWh	0.1	0.1
Maturity date	2020-2021	2019-2021
Hedge ratio	1:1	1:1
Change in discounted value of outstanding hedging instruments since 1 January	-1.0	1.1
Change in value of hedged item used to determine hedge effectiveness	1.0	-1.1
Weighted average hedged price EUR/MWh	23.91	15.43

Positive and negative fair values of unrealised derivatives and their net amount are presented below. Interest and currency derivatives are under netting agreements. The master netting agreements in respect of derivatives do not meet the criteria for offsetting in the balance sheet owing to legally enforceable right not existing currently.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

EUR million	2019	2018
Derivative assets:		
Fair value, gross	0.4	1.6
Fair value, under netting agreements	-0.0	-0.1
Fair value, net	0.3	1.5
Derivative liabilities:		
Fair value, gross	1.7	1.5
Fair value, under netting agreements	-0.0	-0.1
Fair value, net	1.6	1.4

3.4. EQUITY

Share capital

Altia Plc's share capital, paid in its entirety and registered in the trade register, was 60,480,378.36 euros at the end of 2019 and 2018. At the end of the financial period 2019 and 2018 there were 36,140,485 shares outstanding.

All shares issued have been paid in full. The shares have no nominal value. Each share has one vote at the Annual General meeting and equal rights to dividend and other distribution of assets. The company does not hold its own shares.

NUMBER OF SHARES

	2019	2018
Number of outstanding shares in the beginning of the financial year	36 140 485	35 960 000
Personnel offering	-	180 485
Number of outstanding shares at the end of the financial year	**36 140 485**	**36 140 485**

Invested unrestricted equity fund

The amounts paid for issued Personnel Shares in Altia's listing have been recorded as invested unrestricted equity fund.

Fair value reserve

The fair value reserve represents the change in the fair value of financial assets measured at fair value through other comprehensive income.

Legal reserve

Legal reserve represents statutory part of the foreign subsidiary's result.

Hedge reserve

The hedge reserve includes the fair value changes of derivative instruments used for cash flow hedging for effective hedges.

CASH FLOW HEDGE RESERVE

EUR million	Currency forwards	Interest rate swaps	Commodities	Total hedge reserves
Opening balance 1 January 2018	**0.5**	**-1.1**	**0.3**	**-0.3**
Change in fair value of hedging instrument recognised in OCI	1.1	0.2	1.6	2.9
Reclassified from OCI to profit or loss - included in purchases/sales adjustments	-1.7	-	-	-1.7
Reclassified from OCI to financial income / expenses.	-	-0.4	-	-0.4
Reclassified from OCI to electricity purhases	-	-	-0.6	-0.6
Deferred tax	0.0	0.3	-0.3	0.0
Closing balance 31 December 2018	**-0.0**	**-1.0**	**1.1**	**0.0**
Change in fair value of hedging instrument recognised in OCI	0.5	0.2	-0.2	0.5
Reclassified from OCI to profit or loss - included in purchases/sales adjustments	-0.9	-	-	-0.9
Reclassified from OCI to financial income / expenses	-	-0.4	-	-0.4
Reclassified from OCI to electricity purhases	-	-	-0.5	-0.5
Deferred tax	0.1	0.2	-0.1	0.3
Closing balance 31 December 2019	**-0.3**	**-1.0**	**0.2**	**-1.0**

Translation differences

Translation differences comprise all foreign exchange differences arising from the translation of the foreign subsidiaries' financial statements. The Group's accumulated translation differences amounted to negative EUR 22.1 million at 31 December 2019 (31.12.2018: negative EUR 19.6 million).

Earnings per share

Basic earnings per share is calculated by dividing the result for the period attributable to owners of the parent company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share has been calculated on the same basis as basic earnings per share except that it reflects the impact of any potential commitments the Group has to issue shares in the future. Altia has not issued any dilutive instruments during the periods presented.

EARNINGS PER SHARE

	2019	2018
Result attributable to the shareholders of the parent company, EUR million	18.4	15.1
Weighted average number of shares outstanding (1,000 pcs)	36 140	36 140
Basic and diluted earnings per share (EUR)	0.51	0.42

Dividend

The Board of Directors proposes to the Annual General Meeting that dividend of 0.42 per share be distributed for 2019. A dividend for 2018 of EUR 0.38 per share, amounting to a total of EUR 13.7 million, was decided in the Annual General Meeting on 15 May 2019. The dividend was paid on 24 May 2019.

ALTIA PLC'S DISTRIBUTABLE FUNDS

EUR million	31 Dec 2019	31 Dec 2018
Invested unrestricted equity fund	1.2	1.2
Retained earnings	70.9	56.8
Distribution of dividends	-13.7	-
Profit for the period	38.6	14.1
TOTAL DISTRIBUTABLE FUNDS	**96.9**	**72.1**

Gearing
19.1
%

4. Financial and capital risk

4.1. FINANCIAL RISK MANAGEMENT

Financial risk management principles

The aim of Altia's financial risk management is to ensure the Group's financial stability and availability of sufficient financing options in different market situations. In addition, the aim is to support the business operations to identify business-related financial risks and their management, and to hedge against material financial risks.

The Group is exposed to various market risks. Changes in these risks affect the company's assets, liabilities and anticipated transactions. The risks are caused by changes in interest rates, currencies and commodity market prices. Selected derivative instruments can be used to manage the risks resulting from these market risks. Altia mainly hedges against risks that impact the Group's cash flow, and, if deemed appropriate, also certain foreign currency denominated items in the balance sheet. Derivatives are solely used to hedging against the above-mentioned risks. The principles of IFRS 9 hedge accounting are applied to certain interest rate, foreign exchange as well as electricity derivatives. Financial risk management is executed as part of the Group's risk management, according to the Risk Management Principles approved by the Board of Directors. Altia's principles aiming towards financial, credit and operational continuity form the basis for financial risk management.

Risk management process

Special process features related to financing are described below in connection with the descriptions of market, liquidity and credit risks. The financial risk exposure is regularly reported to the Audit Committee and Altia's Board of Directors. The most significant principle decisions concerning risk management are made by the company's Board of Directors.

As part of the financial risk management principles, Altia's Board of Directors has approved a list of financial instruments, in which the accepted instruments, their purpose and the person who decides on their use have been specified for different types of financial risks.

Financial risk management organisation

Financial matters are reported regularly to the Group management. On a case-by-case basis, the Board of Directors processes all substantial financial matters, such as the Group's internal and external loan arrangements.

Tasks and responsibilities regarding Altia's financial operations and financial risk management are described in the financial risk management principles. The Group Treasury is responsible for securing financing, identifying risks and, if required, executing hedging transactions with external counterparties. The business units and subsidiaries are responsible for managing the risks associated with their own operations and forecasting cash flows.

Risk concentrations

Altia carefully analyses the financial risks and risk concentrations related to its operations. Risk concentrations identified as a result of this assessment are described in connection with the descriptions of market and credit risks.

Market risk

Altia defines market risk as a risk where the fair values of financial instruments or future cash flows fluctuate as a result of changes in market prices. The most significant market risks for the Group are currency risk, interest rate risk and price risks for barley and electricity.

1. Currency risk

Altia is exposed to currency risks resulting from export and import, intra-group trade across borders of the euro-area, as well as internal loans and investments in foreign subsidiaries. The objective of the Group's currency risk management is to limit the uncertainties associated with foreign exchange rates and their effect on the Group's profit, cash flows and balance sheet.

Transaction risk

Transaction risk is caused by foreign currency denominated items in the balance sheet and future cash flows related to sales, purchases and return of capital. Transaction risk management aims to hedge the Group's profit against the effects of changes in foreign exchange rates.

The objective is to hedge 60-80% of highly probable commercial cash flows. The average hedging ratio has remained at the target level. Hedging transactions are executed with forward exchange contracts or options for the following 12 months at the most, predominantly following the pricing periods of customers. Altia may apply cash flow hedge accounting to foreign exchange derivatives. Intra-group loan arrangements are hedged by 100% and hedge accounting is not applied to these arrangements.

The two tables below present the Group's net currency position, first on the basis of financial instruments recorded on the balance sheet and secondly including on a net basis also the estimated future foreign currency net cash flows. The currency position resulting from the financial instruments in accordance with IFRS 7 consists of trade receivables, trade payables, cash and cash equivalents, the Group's internal and external loans and derivative instruments.

The net currency risk has been taken into account in the table if the transaction currency is other than the company's functional currency.

TABLE 1: THE GROUP'S NET CURRENCY POSITION AT 31 DECEMBER

The net currency position resulting from the financial instruments in accordance with IFRS 7 EUR million	2019	2018
EUR-SEK	-16.4	-19.7
EUR-NOK	-1.6	-0.8
EUR-USD	2.7	4.5
EUR-AUD	1.7	2.1

The Group's net currency position at 31 December including also the hedged commercial cash flows EUR million	2019	2018
EUR-SEK	1.8	2.4
EUR-NOK	0.3	1.1
EUR-USD	0.3	0.6
EUR-AUD	0.2	0.1

Translation risk
Translation risk is mainly caused by the parent company's foreign currency denominated net investments in foreign subsidiaries, which cause a translation difference in equity in the Group's balance sheet upon consolidation. The Group Treasury regularly analyses the translation risk and reports any material issues to the management. The most significant net investments are denominated in the Swedish and Norwegian kroner. The translation risk has not been hedged.

2. Interest rate risk

The objective of interest rate risk management is to minimise the impact of fluctuations arising from interest rate changes on the Group's profit. At 31 December 2019 the total nominal amount of loans was EUR 82.8 million (2018: 89.3) and was divided as follows:

- The EUR 15.0 million loan matures in January 2022 with annual EUR 5 million instalments. The interest rate on the loan is based on three –month market rate. Currently these interest payments are not hedged.
- The EUR 55.0 million portion of the loan matures in January 2023. The interest rate on the loan is based on three-month market rate. Altia has hedged these interest payments to fixed interest rate by using an interest rate derivative amounting to EUR 20 million. Hedge accounting principles are applied to this interest rate derivative. The hedge has been regarded as effective.
- The EUR 12.8 million pension loan matures in January 2028. The interest rate is fixed for the whole loan period.

The maximum amount under Altia's domestic commercial paper program is EUR 100 million. There were no issued commercial papers at 31 December 2019 and 2018.

Altia's maximum limit for sale of trade receivables amounts to EUR 145 million and is approved by Board of Directors. The sold trade receivables are derecognised at the time of trade with no obligation to repurchase. The related costs are recognised in other financial expenses. The trade receivables are current receivables and the related interest rate risk is not hedged. The amount of the sold trade receivables was EUR 76.7 million at 31 December 2019 (2018: 80.2 million).

3. Price risk associated with commodities

Barley
In 2019, Altia used approximately 212 (212) million kilos of Finnish grain to produce ethanol and starch. The availability of high-quality domestic barley is ensured with contract cultivation and co-operation with grain growers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of various factors that affect the Finnish barley supply and demand and is therefore considered a significant risk for Altia. The price risk has not been hedged with derivative instruments.

Electricity
Strong increase in the market price of electricity is a significant risk for Altia. The risk is managed by following Altia's principles for electricity procurement. These principles determine the hedging limits, within which the electricity price risk is hedged. The hedges are done with OTC-derivatives of Nasdaq OMX Oslo ASA. The hedging service for electricity procurement has been outsourced.

Cash flow hedge accounting in accordance with IFRS 9 is applied to the hedges against electricity price risk, and hedge effectiveness is tested quarterly. The hedged risk is the euro dominated sourcing of electricity in Finland. To hedge the risk system priced, Finnish price area and price area derivative is used. With system priced derivatives is hedged Nordic electricity price and with price area derivative is hedged the price difference between Finnish price area and system price.

At the end of 2019, the hedging ratio for deliveries for the next 12 months was 53.7.% (2018: 64.1%), in line with the set targets. In 2019 the average hedging ratio was 66.0% (68.0%). All hedging was effective in 2019 as it was in 2018.

Altia purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

4. Sensitivity to market risks

The following table describes the sensitivity of the Group's profit and equity (before taxes) to changes in electricity prices, interest and foreign exchange rates. When Altia applies hedge accounting, the sensitivity is directed at equity. When hedge accounting is not applied, the sensitivity is recognised as a potential impact on profit or loss.

The sensitivity to foreign exchange rate changes is calculated from the net currency position resulting from financial instruments.

TABLE 2: SENSITIVITY ANALYSES

Sensitivity of financial instruments to market risks (before taxes) in accordance with IFRS 7 EUR million	2019 Income statement	2019 Equity	2018 Income statement	2018 Equity
+/-10% electricity	-	+/-0.2	-	+/-0.3
+/-10% change in EUR/NOK exchange rate	-/+0.0	+/- 0.2	-/+0.1	+/-0.2
+/-10% change in EUR/SEK exchange rate	-/+0.2	+/-1.8	-/+0.2	+/-2.2
+/-10% change in EUR/USD exchange rate	-/+ 0.0	-/+0.2	-/+0.1	-/+0.4
+/-10% change in EUR/AUD exchange rate	-/+ 0.0	-/+0.2	-/+0.0	-/+0.2
+1%-points parallel shift in interest rates	-0.5	+0.4	-0.5	+0.6

+10 % increase in EUR/SEK exchange rate would have an EUR -0.2 million effect in income statement. Other risks with same principle.

At the end of 2019 the total group floating rate liability position consists of floating rate liabilities EUR 70.0 million (2018: EUR 75.0 million) and floating leg of interest rate swap EUR 20 million (2018: EUR 20.0 million) which is netting the interest rate risk.

Liquidity risk

In order to manage the liquidity risk, Altia continuously maintains sufficient liquidity reserves, which at the end of 2019 comprised Group's EUR 10 million overdraft facility and a EUR 60 million revolving credit facility. At the end of December 2019 no revolving credit facility was in use (2018: EUR 0.0 million). The revolving credit facility matures in January 2023. More detailed information on the Group's external loans is provided in the interest rate risk section.

TABLE 3: LIQUIDITY RESERVES

Cash and cash equivalents and unused committed credit limits EUR million	2019	2018
Cash and cash equivalents	64.2	42.0
Overdraft facilities	10.0	10.0
Revolving credit line	60.0	60.0
TOTAL	**134.2**	**112.0**

TABLE 4: MATURITIES OF FINANCIAL LIABILITIES

Contractual payments on financial liabilities 2019 EUR million	Total contractual cash flows	Cash flows 2020			Cash flows 2021			Cash flows 2022–		
		Fixed rate	Variable rate	Re-payment	Fixed rate	Variable rate	Re-payment	Fixed rate	Variable rate	Re-payment
Non-derivative:										
Loans from financial institutions[1]	-72.2	-	-0.7	-5.0	-	-0.7	-5.0	-	-0.8	-60.0
Loans from pension institutions[2]	-13.4	-0.1	-	-1.5	-0.1	-	-1.5	-0.4	-	-9.8
Lease liabilities	-10.5	-	-	-3.4	-	-	-3.0	-	-	-4.1
Trade payables	-25.7	-	-	-25.7	-	-	-	-	-	-
Derivative:										
Currency derivatives, hedge accounting										
Inflow	24.2	-	-	24.2	-	-	-	-	-	-
Outflow	-24.6	-	-	-24.6	-	-	-	-	-	-
Currency derivatives, non-hedge accounting										
Inflow	3.9	-	-	3.9	-	-	-	-	-	-
Outflow	-3.9	-	-	-3.9	-	-	-	-	-	-
Interest rate derivatives, hedge accounting	-1.2	-0.4	-	-	-0.4	-	-	-0.5	-	-
Commodity derivatives, hedge accounting	-0.3	-	-	-0.2	-	-	-0.1	-	-	-
TOTAL	**-123.8**	**-0.5**	**-0.7**	**-36.3**	**-0.5**	**-0.7**	**-9.6**	**-0.9**	**-0.8**	**-73.9**

[1] Loans from financial institutions mature 2022 and 2023
[2] Loans from pension institutions mature 2028

TABLE 4: MATURITIES OF FINANCIAL LIABILITIES

Contractual payments on financial liabilities 2018 EUR million	Total contractual cash flows	Cash flows 2019 Fixed rate	Cash flows 2019 Variable rate	Cash flows 2019 Re-payment	Cash flows 2020 Fixed rate	Cash flows 2020 Variable rate	Cash flows 2020 Re-payment	Cash flows 2021– Fixed rate	Cash flows 2021– Variable rate	Cash flows 2021– Re-payment
Non-derivative:										
Loans from financial institutions[1]	-77.9	-	-0.8	-5.0	-	-0.7	-5.0	-	-1.4	-65.0
Loans from pension institutions[2]	-15.1	-0.2	-	-1.5	-0.1	-	-1.5	-0.5	-	-11.3
Finance lease liabilities	-0.4	-	-	-0.2	-	-	-0.2	-	-	0.0
Trade payables	-25.8	-	-	-25.8	-	-	-	-	-	-
Derivative:										
Currency derivatives, hedge accounting										
Inflow	30.9	-	-	30.9	-	-	-	-	-	-
Outflow	-30.8	-	-	-30.8	-	-	-	-	-	-
Currency derivatives, non-hedge accounting										
Inflow	33.7	-	-	33.7	-	-	-	-	-	-
Outflow	-33.6	-	-	-33.6	-	-	-	-	-	-
Interest rate derivatives, hedge accounting	-1.3	-0.3	-	-	-0.3	-	-	-0.7	-	-
Commodity derivatives, hedge accounting	-1.3	-	-	-0.9	-	-	-0.4	-	-	-0.1
TOTAL	**-121.7**	**-0.5**	**-0.8**	**-33.2**	**-0.5**	**-0.7**	**-7.1**	**-1.2**	**-1.4**	**-76.4**

[1] Loans from financial institutions mature 2022 and 2023
[2] Loans from pension institutions mature 2028

Credit risk

The objective of Altia's credit risk management is to minimise the losses if one of the Group's counterparties fails to meet its obligations. The principles of credit risk management are described in the Group's credit policy.

Credit risks are caused by a counterparty not fulfilling its contractual payment obligations or the counterparty's credit rating changing in a manner that affects the market value of the financial instruments it has issued.

The maximum amount of credit risk is equal to the carrying amount of the Group's financial assets. No significant risk concentrations relate to trade receivables. The aim is to minimise credit risks by active credit management and by taking into account customers' credit rating when determining the payment term of invoices.

4.2. CAPITAL RISK MANAGEMENT

The target of Altia's capital management is to secure an effective capital structure that supports the profitable growth of the operations. The Board of Directors monitors the Group's capital structure regularly.

Altia monitors its capital based on gearing (the ratio of interest-bearing net liabilities to equity). Interest-bearing net liabilities consist of the borrowings and lease liabilities less cash and cash equivalents. The current level of gearing is distinctly lower than the limit determined in the Group's loan terms.

During the business cycle, the company's net gearing is likely to fluctuate, and the objective is to retain a sufficiently strong capital structure to secure the Group's financing needs. At 31 December 2019 and 31 December 2018 the gearing ratio was as follows:

TABLE 5: GEARING

Gearing as of 31 December EUR million	2019	2018
Borrowings	82.6	89.4
Lease liabilities	10.5	-
Cash and cash equivalents	64.2	42.0
Net debt	28.9	47.4
Total equity	151.2	150.1
GEARING AT 31 DECEMBER	**19.1%**	**31.6%**

5. Consolidation

5.1. GENERAL CONSOLIDATION PRINCIPLES

Consolidation

Consolidation, consolidation method and classification of ownership interests depends on whether the Group has power to control or jointly control the entity or have significant influence or other interests in the entity. When the Group has power to control the entity, it is consolidated as a subsidiary according to principles described in Note 5.2. Subsidiaries. When the Group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using the principles set in Note 5.3. Associated companies, joint ventures and interests in joint operations. If the Group does not have power to control nor significant influence in the entity, its ownership interests are classified as Financial assets at fair value through other comprehensive income and accounted for according to principles described in Note 3.2.1.

Foreign currency items

The consolidated financial statements are presented in euro, which is the functional and presentation currency of the parent company. Transactions in foreign currencies are translated to euro at average foreign exchange rates published by the European Central Bank on banking days. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the average exchange rates prevailing at that date. Foreign currency differences arising on translation are recognised in profit or loss. Foreign exchange gains and losses related to purchases and sales are recognised in the respective items and included in operating result. Foreign currency gains and losses arising from loans denominated in foreign currencies are recognised in finance income and expenses.

Income and expenses for the statements of comprehensive income of foreign subsidiaries that operate outside the eurozone are translated using the average rates of the European Central Bank's exchange rates at the end of the month. The statements of financial position of foreign subsidiaries are translated using the average exchange rates ruling at the reporting date. Foreign currency differences arising on the translation of profit or loss for the period with different exchange rates in the statement of comprehensive income and in the balance sheet are recognised in other comprehensive income and included in translation differences in equity. Changes in translation differences are recognised in other comprehensive income.

In the consolidated financial statements, exchange rate differences arising from the translation of foreign currency denominated loans to foreign subsidiaries, which form a part of net investments in foreign companies, are recognised in other comprehensive income and included in translation differences within equity.

Translation differences arising from elimination of the cost of foreign subsidiaries and from translation of the foreign subsidiaries' post-acquisition profits and losses are recognised in other comprehensive income and presented as a separate item within equity. Goodwill and the fair value adjustments to the carrying amounts of assets and liabilities of foreign units are accounted for as assets and liabilities of the respective foreign units, which are translated to euro at the exchange rates prevailing at the reporting date. If these foreign units are entirely or partly disposed of, related exchange rate differences are recognised in profit or loss as part of the gain or loss on disposal.

5.2. SUBSIDIARIES

Subsidiaries consolidation principles

Consolidated financial statements of Altia include the parent company, Altia Plc, and all subsidiaries. Subsidiaries are all those in which the parent company exercises control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of acquired subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All business combinations are accounted for by using the acquisition method. The consideration transferred and the identifiable assets acquired and liabilities assumed in the acquired company are measured at fair value at the acquisition date. The amount exceeding the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired is recorded as goodwill.

All acquisition-related costs, with the exception of costs to issue debt or equity securities, are expensed. The consideration transferred does not include any transactions accounted for separately from the acquisition. Any contingent consideration is recognised at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as a liability is measured at fair value at each reporting date and any resulting gain or loss is recognised in profit or loss.

Intra-group transactions, receivables, liabilities and unrealised gains, as well as the distribution of profits within the Group are eliminated in preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss in question results from impairment.

The Group had no non-controlling interests at 31 December 2019 or 31 December 2018.

Altia Plc had 23 subsidiaries at the end of the reporting period (23 subsidiaries at 31 December 2018).

	Parent company's share of ownership (%)	Group's share of ownership (%)	Country of incorporation
A-Beverages Oy	100.00	100.00	Finland
Altia Eesti AS	100.00	100.00	Estonia
Altia Denmark A/S	100.00	100.00	Denmark
Altia Holding Sweden AB	-	100.00	Sweden
SIA Altia Latvia	100.00	100.00	Latvia
Altia Norway AS	100.00	100.00	Norway
Altia Sweden AB	100.00	100.00	Sweden
Altia Sweden Services AB	-	100.00	Sweden
Alpha Beverages Oy	100.00	100.00	Finland
Best Buys International AS	100.00	100.00	Norway
BevCo AB	-	100.00	Sweden
Bibendum AB	-	100.00	Sweden
Bibendum AS	100.00	100.00	Norway
ExCellar Oy	100.00	100.00	Finland
Harald Zetterström oy/ab	100.00	100.00	Finland
Interbev AS	100.00	100.00	Norway
Larsen SAS	100.00	100.00	France
Philipson & Söderberg AB	-	100.00	Sweden
Prime Wines Oy	100.00	100.00	Finland
Premium Wines AS	100.00	100.00	Norway
Ström AS	100.00	100.00	Norway
Vinuversum AB	-	100.00	Sweden
Oy Wennerco Ab	100.00	100.00	Finland

5.3. ASSOCIATED COMPANIES AND JOINT ARRANGEMENTS

Associated companies

Associated companies are all entities over which the Group accompanies a shareholding of over 20% of voting rights or otherwise has significant influence, but not control. Altia has an investment in an associated company Palpa Lasi Oy.

Associated companies are consolidated by using the equity method. Under the equity method, the investment is initially recognised at cost and subsequently adjusted with the change in the net assets of the investee after the acquisition date, consistent with the ownership interest of the Group. After the acquisition the Group's share in the associated company's profit and loss for the period is separately disclosed after operating result. If the Group's share in the associated company's loss exceeds the carrying amount of the investment, the investment is recognised at zero value in the consolidated balance sheet and the loss exceeding the carrying amount is not consolidated, unless the Group has committed to fulfil the company's obligations. An investment in an associated company includes goodwill arisen on acquisition. The Group's share in changes in the associated company's other comprehensive income is recognised in consolidated other comprehensive income.

Results from the transactions between the Group and its associates are recognised only to the extent of unrelated investor's interests in the associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. In case of such indications, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its' carrying value. The impairment is recognised in share of results in associated companies.

Financial statements of associated companies have been changed where necessary to correspond with the accounting policies adopted by the Group. If financial statements for the period are not available, the share of the profit is included in the consolidated financial statements based on the preliminary financial statements or latest available information.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have contractually agreed joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

Altia has an interest through a receivable in Roal Oy based on the contractual relationship with the other party to the joint operation. The interest in Roal Oy is accounted for as a joint operation.

Joint ventures are consolidated by using the equity method. Altia has an investment in a joint venture Von Elk Company.

ASSOCIATED COMPANIES AND JOINT ARRANGEMENTS

	2019 Share of ownership %	2018 Share of ownership %
Roal Oy, Finland	50.00	50.00
Palpa Lasi Oy, Finland	25.53	25.53
Von Elk Company Oy, Finland	20.00	–

Roal Oy engages enzyme business. The joint operation's other owner is ABF Overseas Ltd. Altia has joint control over Roal but the option right held by the other shareholder represents in substance a receivable with a fixed rate of return and Altia does not have a right to 50% of the net assets until the option lapses. Accordingly, the interest is classified as a joint operation with Altia accounting for its share of assets as a receivable with the annual minimum dividend accounted for as interest income. The receivable amounted to EUR 7.6 million as at 31 December 2019 and 31 December 2018.

Palpa Lasi Oy engages in the recycling and re-use of glass beverage packages.
Von Elk Company is a Finnish family enterprise which engages in alcoholic beverage business.

INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2019	2018
At the beginning of the period	0.3	-
Additions	0.2	-
Share of result for the period	0.7	0.3
At the end of the reporting period	1.2	0.3

FINANCIAL SUMMARY OF ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2019	2018
Assets	8.8	7.6
Liabilities	4.9	6.3
Net assets	3.9	1.3
Net sales	18.5	18.3
Result for the period	2.6	2.8

Related party transactions with associated companies and joint arrangements are presented in Note 6.3.

6. Other notes

6.1. INCOME TAX EXPENSE

Income tax expense

The Group's income tax expense recognised through profit or loss comprises current tax based on taxable income for the period, any adjustments to tax payable in respect of previous periods and deferred taxes. Current income tax based on taxable income is calculated according to the local tax regulations of each Group company.
Tax effects related to transactions or other events recognised in profit or loss are recognised in profit or loss. If the taxes relate to items of other comprehensive income or transactions or other events recognised directly in equity, income tax expense is recognised within the respective items. The Group's share of profit or loss in associated companies and joint ventures is reported as calculated from the net profit and thus including the income tax effect.

Deferred tax assets and liabilities are principally recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from property, plant and equipment and intangible assets, carry forward of unused tax losses and fair value allocations on business combinations. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax liabilities are recognised in full. Deferred taxes are calculated using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised for foreign subsidiaries undistributed earnings only when related tax effects are probable.

Deferred tax assets and liabilities are set off when they are levied by same taxing authority and Altia has legally enforceable right to set off the balances.

Critical estimates and management judgements – Deferred tax assets

Judgment is required in assessing whether deferred tax assets are recognised on the balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These future cash flow estimates depend on estimates of future sales volumes, price levels of main raw materials, capital expenditure and other components affecting profitability of the operations. These estimates and assumptions are subject to risk and uncertainty, hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of any other tax losses and temporary differences not yet recognised. Altia's ability to generate taxable profit is also subject to general economic, financial, competitive, legislative and regulatory factors that are beyond its control. If Altia generates lower future taxable profits than what management has assumed in determining the amounts of the recognised deferred tax assets, the assets would become impaired, either partly or in full. Accordingly, amounts recognised in balance sheet could potentially be reversed through profit and loss. Changes in circumstances may also result in recognition of deferred tax assets for tax losses not yet recognised as an asset.

Uncertain tax positions

The tax positions are evaluated in periodically by the management to identify the situations in which tax regulation is subject to interpretation. Based on the evaluation uncertain tax positions are recognized when it is more likely than not that certain tax position will be challenged by tax authorities. The impact of the uncertainty is measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty.

INCOME TAX EXPENSE

EUR million	2019	2018
Current income tax expense	5.3	3.8
Adjustments to taxes for prior periods	0.7	0.2
Deferred taxes:		
Origination and reversal of temporary differences	0.2	0.0
Impact of changes in tax rates	-	-0.4
TOTAL	**6.2**	**3.6**

The reconciliation of the tax expense recognised in profit and loss and the tax expense calculated using Altia Group's domestic corporate tax rate (20.0%):

EUR million	2019	2018
Result before taxes	24.6	18.6
Income tax using the parent company's tax rate	4.9	3.7
Effect of tax rates of subsidiaries in foreign jurisdictions	-0.0	0.3
Tax-exempt income	-0.2	-0.3
Non-deductible expenses	0.2	0.1
Utilisation of previously unrecognised tax losses	-	-0.0
Adjustments to taxes for prior periods	0.7	0.2
Share of profit in associated companies, net of tax	-0.1	-0.1
Effect of changes in tax rates	-	-0.4
Tax on undistributed earnings	0.1	-0.0
Other items	0.6	0.0
TAX EXPENSE IN PROFIT OR LOSS	**6.2**	**3.6**

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

2019 EUR million	Before tax	Tax	Net of tax
Cash flow hedges	-1.3	0.3	-1.0
Translation differences	-2.4	-	-2.4
Remeasurements of post-employment benefit obligations	-0.2	0.0	-0.2
TOTAL	**-3.9**	**0.3**	**-3.6**

2018 EUR million	Before tax	Tax	Net of tax
Cash flow hedges	0.4	-0.1	0.3
Translation differences	-3.5	-	-3.5
Remeasurements of post-employment benefit obligations	0.0	-0.0	-0.0
TOTAL	**-3.1**	**-0.1**	**-3.2**

DEFERRED TAX ASSETS AND LIABILITIES

Change in deferred tax assets and liabilities during 2019: EUR million	1 Jan 2019	Recognised in profit or loss	Recognised in other comprehensive income	Exchange rate differences	31 Dec 2019
Deferred tax assets:					
Tax losses	0.1	-0.1	-	0.0	0.0
Fixed assets	2.0	-0.3	-	0.0	1.7
Pension benefits	0.3	-0.0	0.0	0.0	0.3
Provisions	0.1	-0.1	-	-	0.0
Internal margin of inventories	0.1	0.0	-	-0.0	0.1
Recognised in hedge reserve	0.0	-	0.2	-0.0	0.3
Other temporary differences	0.1	0.1	-	0.0	0.2
Total deferred tax assets	**2.7**	**-0.5**	**0.3**	**0.0**	**2.5**
Offset against deferred tax liabilities	-1.9				-1.6
Net deferred tax assets	**0.8**				**0.9**
Deferred tax liabilities:					
Fixed assets	5.2	-0.0	-	-0.0	5.2
Recognised in hedge reserve	0.0	-	-0.0	0.0	0.0
Fair value allocation on acquisitions	2.1	-0.4	-	-0.0	1.7
Deductable goodwill depreciation	9.7	0.0	-	-0.1	9.6
Undistributed profits of foreign subsidiaries	1.7	0.1	-	-	1.8
Other temporary differences	0.0	-	-	-	0.0
Total deferred tax liabilities	**18.8**	**-0.3**	**-0.0**	**-0.1**	**18.3**
Offset against deferred tax assets	-1.9				-1.6
Net deferred tax liabilities	**16.8**				**16.7**

DEFERRED TAX ASSETS AND LIABILITIES

Change in deferred tax assets and liabilities during 2018: EUR million	1 Jan 2018	Recognised in profit or loss	Recognised in other comprehensive income	Exchange rate differences	31 Dec 2018
Deferred tax assets:					
Tax losses	0.3	-0.2	-	-0.0	0.1
Fixed assets	2.4	-0.4	-	-0.0	2.0
Pension benefits	0.3	0.0	-0.0	-0.0	0.3
Provisions	-	0.1	-	-	0.1
Internal margin of inventories	0.1	0.0	-	-0.0	0.1
Recognised in hedge reserve	0.1	-	-0.1	-	0.0
Other temporary differences	0.2	-0.0	-	-0.0	0.1
Total deferred tax assets	**3.3**	**-0.4**	**-0.1**	**-0.0**	**2.7**
Offset against deferred tax liabilities	-2.3				-1.9
Net deferred tax assets	**1.0**				**0.8**
Deferred tax liabilities:					
Fixed assets	5.2	-0.0	-	-0.0	5.2
Recognised in hedge reserve	0.0	-	0.0	-0.0	0.0
Fair value allocation on acquisitions	2.7	-0.5	-	-0.1	2.1
Deductable goodwill depreciation	10.4	-0.4	-	-0.3	9.7
Undistributed profits of foreign subsidiaries	1.7	-0.0	-	-	1.7
Other temporary differences	0.0	-0.0	-	-	0.0
Total deferred tax liabilities	**20.0**	**-0.9**	**0.0**	**-0.4**	**18.8**
Offset against deferred tax assets	-2.3				-1.9
Net deferred tax liabilities	**17.7**				**16.8**

At 31 December 2019, the Group had EUR 1.6 million (2018: EUR 1.0 million) of tax loss carry forwards for which no deferred tax was recognised. EUR 0.9 million of these temporary differences expire in three years and EUR 0.6 million have unlimited expiry. Altia management estimates these losses arise in subsidiaries which have neither indication of future taxable income nor other convincing evidence that tax losses can be utilised and deferred tax asset be recognised in balance sheet.

Altia Oyj's fully owned French subsidiary Larsen SAS has been undergoing a regular audit by the local tax authorities. In December 2019 the company received the tax assessment decision regarding the outcome of the audit resulting in a tax claim amounting to EUR 1.1 million relating to the mark-up used in the transfer pricing for products sold to other Group companies. Based on the tax assessment the company has accrued for the tax claim in the 2019 financial statements.

Altia Group will however submit its counter arguments against the claim and should the French authorities maintain its position, Altia Group will proceed through the Mutual Agreement Procedure (MAP) with the aim to eliminate a potential double taxation related to the increased mark-up in France which is to be deducted in the tax jurisdictions where the Altia Group companies buying the products have been operating. Altia has recorded a EUR 0.4 million tax receivable in respect of the potential MAP application.

6.2. COLLATERALS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

EUR million	2019	2018
Collaterals and commitments		
Collaterals given on behalf of Group companies		
Mortgages	18.5	18.5
Guarantees	5.9	5.3
TOTAL COLLATERALS	**24.4**	**23.8**
Other commitments		
Operating lease obligations		
Less than one year	0.2	3.9
Between one and five years	0.1	9.3
More than five years	-	0.5
Total operating lease obligations	0.3	13.6
Other commitments	20.8	15.5
TOTAL COMMITMENTS	**21.1**	**29.1**

Collaterals given on behalf of Group companies all relate to commitments to authorities.
Operating lease obligations consists mainly of laptops.

Other commitments include mainly purchase obligations of wine and cognac.

Assets not recognized in the balance sheet, emission allowances

The Group participates in the European Union emission trading scheme, where it has been granted a certain number of carbon dioxide emission allowances for a certain period of time, free of charge. Altia Plc discloses its carbon dioxide emission allowances granted free of charge on net basis. Following from this, the Group does not recognise in the balance sheet the granted emission allowances, nor the obligation to deliver allowances corresponding to the realised emissions. The Group does not recognise income or expenses arising from emission allowances through profit or loss when the emission allowances granted are sufficient to cover the obligation to deliver allowances corresponding to the amount of emissions made.

If the realised emissions exceed the granted emission allowances, the obligation arising from the excess emissions is recognised at fair value as a liability in the balance sheet at the reporting date. If the realised emissions fall below the granted emission allowances, the difference is not recognised in the balance sheet but it is disclosed in the notes to the financial statements, measured at fair value.

Altia's actual emissions are below the emission allowances granted. The following table presents changes in allowances for financial years 2019 and 2018, as well as their fair values:

Emission allowances, kilotons	2019	2018
Emission allowances received	26.4	26.9
Excess emission allowances from the previous period	30.6	45.6
Adjustments related to prior year's estimates	-0.0	0.0
Sold emission allowances	-33.0	-20.0
Realised emissions	-20.0	-21.9
EMISSION ALLOWANCES AT 31 DECEMBER	**4.0**	**30.6**
Fair value of emission allowances at 31 December, EUR million	0.1	0.7

The emission allowances received during year 2019 and the realised emissions are estimates, which will be adjusted during the spring 2020. Altia continues to operate within the emission trading system for the trading period 2013–2020.

6.3. RELATED PARTY TRANSACTIONS

The Company's related parties include the subsidiaries, associated companies, joint ventures and joint operations. The subsidiaries are presented in Note 5.2. and associated companies, joint ventures and joint operations in Note 5.3. Related party transactions include such operations that are not eliminated in the Group´s consolidated financial statements.

Related party also include the Board of Directors, the CEO, the members of the Executive Management Team and their family members as well as entities controlled or jointly controlled by these persons. Also, entities that are controlled or jointly controlled by, or are associates of the State, are related parties of Altia. Altia has applied the exemption to report only material transactions with the government related entities. Transactions with related parties are entered into on market terms. Altia has related party transactions on a continuous basis with its major customer Alko. Transactions with Alko have been presented below under Other companies considered related parties.

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH RELATED PARTIES

EUR million	2019	2018
Sales of goods and services		
Associates, joint ventures and joint operations	0.8	0.9
Other companies considered related parties	76.5	79.2
TOTAL	**77.3**	**80.1**
Purchases of goods and services		
Associates, joint ventures and joint operations	1.9	2.8
Other companies considered related parties	1.2	1.3
TOTAL	**3.2**	**4.1**
Outstanding balances from sales and purchases of goods and services		
Trade receivables		
Associates, joint ventures and joint operations	-	0.1
Other companies considered related parties	0.9	3.2
Trade payables		
Associates, joint ventures and joint operations	0.2	0.3
Other companies considered related parties	0.1	0.0

MANAGEMENT REMUNERATION

EUR million	2019	2018
CEO		
Salaries and other short-term employee benefits	0.3	0.3
Performance bonus and the bonuses from long-term incentive plan	-	0.3
Pension benefits	0.1	0.1
TOTAL	**0.4**	**0.7**
Members of the Executive Management Team (CEO not included)		
Salaries and other short-term employee benefits	1.2	1.9
Pension benefits	0.2	0.3
TOTAL	**1.4**	**2.2**
Members and deputy members of the Board of Directors	0.3	0.3

No monetary loans have been granted to the CEO or the members of the Board of Directors, nor any collaterals or commitments granted on their behalf.

The retirement age of the CEO of the parent company is 63 years.

6.4. SHARE-BASED PAYMENTS

The Group has share-based incentive plan which is settled in shares and in cash. The granted shares are measured at fair value at a grant date and are recognized as personnel expenses over the vesting period with corresponding increase in equity. Non-market conditions are not included in fair value of share-based instruments but in the number of instruments that are expected to vest. At each reporting period closing date, the estimates about number of instruments are revised and the impact is recognized in income statement. Also share-based payments to be paid in cash are classified as paid by equity and recognized in equity measured at fair value at grant date.

The Board of Directors of Altia Plc has decided on the establishment of a new share-based long-term incentive scheme for the management and key employees of Altia Group. The objectives of the share-based long-term incentive scheme are to align the interests of Altia's management and key employees with those of the Company's shareholders and, thus, to promote shareholder value creation in the long term, and to commit the management and key employees to achieving Altia's strategic targets as well as the retention of Altia's valuable key resources.

PSP 2019-2021 performance period started in the beginning of 2019 and the potential share reward will be paid in spring 2022 in Altia shares. The performance targets based on which the potential share reward under PSP 2019-2021 will be paid are the relative total shareholder return (relative TSR) of Altia's share and earnings per share (EPS). Approximately 20 individuals are included into the plan.

If all the performance targets set for PSP 2019–2021 are fully achieved, the aggregate maximum number of shares to be paid based on the plan is approximately 250 000 Altia shares. This number of shares represents a gross earning, from which the applicable payroll tax is withheld, and the remaining net value is paid to the participants in shares.

The combined amount of variable compensation paid to an individual participant any given year, including the long-term incentive scheme and the short-term incentive scheme, may not exceed 120% of the individual's annual gross base salary.

If the individual's employment with Altia Group terminates before the payment date of the share reward, the individual is, as a main rule, not entitled to any reward based on the plan.
Altia applies a share ownership recommendation to the members of its Executive Management Team. According to this recommendation each member of the Executive Management Team is expected to retain in his/her ownership at least half of the net shares received under the share-based incentive schemes of Altia until the value of his/her share ownership in Altia corresponds to at least his/her annual gross base salary.

Share-based incentives during the period 1.1.2019-31.12.2019	
Plan	Long-term incentive Plan 2019–2024
Type	Share
Instrument	Performance period 2019–2021
Grant date	28/02/2019
Beginning of earning period	01/01/2019
End of the earning period	31/12/2021
Vesting date	31/03/2022
Vesting conditions	Relative TSR and EPS
Maximum contractual life, years	3.25
Remaining contractual life, years	2.25
Number of persons at the end of reporting year	18
Payment method	Cash and equity
Changes during period:	**Performance period 2019–2021**
01/01/2019	
Outstanding in the beginning of the period	0
Changes during period	
Granted	219 000
Forfeited	0
31/12/2019	
Outstanding at the end of the period	219 000

Fair-value determination	
Valuation parameters for instruments granted during period	
Share price at grant, €	7.54
Share price at the reporting period end, €	8.18
Expected dividends, €	1.17
Risk free rate, %	-0.29
Fair value, €	1 395 030

EUR million	2019	2018
Effect of share -based incentives on the result		
Expenses for the financial year, share based payments paid in equity	0.0	-
Expenses for the financial year, share based payments paid in cash	0.1	-
TOTAL	**0.1**	**-**

6.5. ADOPTION OF NEW OR AMENDED IFRS STANDARDS AND INTERPRETATIONS

Altia has adopted new accounting standards issued by the International Accounting Standards Board, IFRS 16, Leases, effective on January 1, 2019.

IFRS 16 Leases

Altia has applied the new IFRS 16 Leases standard since 1 January 2019.

Altia applies the simplified approach, according to which the comparison information is not adjusted. The new standard mainly affects the accounting treatment applied by the lessees. As a result of the new standard, nearly all leases are recognised on the balance sheet. Altia mainly acts as the lessee. The Group's leases are related to normal business operations, such as leases on facilities, warehouses, vehicles, forklifts and office technology. The new standard removes the previous distinction between operating and finance leases. In accordance with the new standard, an asset item (right of use of the leased asset) and a financial liability concerning lease payments have been recognised for most of Altia's leases.

The lease liability is measured by discounting the expected lease payments to the current value. Lease payments include fixed lease payments, expected payments related to residual value guarantees and the possible exercise price of the purchase option if the use of the option is reasonably certain. The lease period is the non-cancellable period of the lease. Any extension options are added to the lease period if it is reasonably certain that the Group will exercise such options.

Lease payments are discounted at the internal rate of return of the lease if such a rate can be readily determined. If an internal rate of return cannot be readily determined, the interest rate for additional credit is used as the discount rate.

The lease liability is remeasured and adjusted against the right-of-use asset if the cash flow in accordance with the original terms and conditions of lease changes; for example, if the lease period changes or if the lease payments change based on a variable index or interest rate. The lease liability is divided into current and non-current liability and is presented on a separate line on the balance sheet.

Right-of-use assets are measured at acquisition cost based on the amount of the initial measurement of the lease liability. Right-of-use assets are depreciated over the lease period or their useful lives, depending on which is shorter.

Right-of-use assets related to tangible assets are presented on a separate line on the balance sheet.

The IFRS 16 standard includes exemptions concerning leases of less than 12 months and low-value assets. Altia treats leases with less than 12 months remaining of the lease period at the time of transition as current underlying asset items that are not recognised on the balance sheet. The selection is made based on the class of the underlying asset. Exemptions apply to all underlying asset items other than vehicles and offices, which are recognised on the balance sheet even if their remaining lease period is less than 12 months at the time of transition. Lease liabilities are not recognised for low-value assets. Altia considers assets with an acquisition cost of less than EUR 5,000 to be low-value. Finance leases included in exemptions as short-term or low value were derecognized from balance sheet. Lease expenses related to leases included in the exemptions are recognised in equal instalments over the lease period.

The criteria used to determine the discount rate includes the class of the underlying asset, geographical location, currency, the maturity of the risk-free interest rate and the lessee's credit risk premium.

At the time of transition, on 1 January 2019, a right-of-use asset item of EUR 10.7 million was recognised on the opening consolidated balance sheet, in addition to EUR 7.1 million in long-term lease liabilities and EUR 3.6 million in short-term lease liabilities.

RECONCILIATION OF LEASE LIABILITIES AND OPERATING LEASE COMMITMENTS ON TRANSITION

EUR million	
Operating lease commitments 31December 2018	13.6
Discounting effect	-0.5
Exempted from recognition	-0.2
Leases not yet commenced but to which Altia is committed	-2.5
Other changes	0.3
TOTAL	**10.7**

The weighted average incremental borrowing rate applied to lease liabilities on January 2019 was 1.14%.

The IFRS 16 standard affects many of Altia's reported key figures. The adoption of the standard also affects net debt, which includes financial liabilities and lease liabilities. Gearing will increase, and the equity ratio will decrease. The adoption of the standard does not have a negative effect in terms of the company's financial covenants. On the cash flow statement, the cash flows from operating activities are higher than before because the share of lease liability repayments of all payments is classified as financing activities. Only the share of the interest expense of all payments continues to be presented in cash flows from operating activities.

The reporting period 1 January to 30 December 2019 includes the adoption of the IFRS standard as of 1 January 2019. The IFRS 16 standard had a positive effect of EUR 3.8 million on the comparable EBITDA, a negative effect of EUR 3.7 million on depreciation, and a negative effect of EUR 0.1 million on financial expenses. On the consolidated balance sheet on 31 December 2019, the amount of asset items based on rights of use is EUR 10.4 million, the amount of long-term lease liabilities is EUR 7.1 million and the amount of short-term lease liabilities is EUR 3.4 million. In the cash flow statement, cash payments for the capital portion of the lease liability are presented under financing activities, and the interest portion of the lease liability is presented in cash flows from operating activities. Previously, all operating lease payments were presented in cash flows from operating activities. This had a positive effect of EUR 3.8 million on the Group's cash flows from operating activities and a negative effect of EUR 3.7 million on its cash flows from financing activities in January–December 2019.

IFRIC 23

IFRIC 23 clarifies the recognition and measurement requirements In IAS 12 Income taxes, when there is uncertainty over income tax treatment. Altia has adopted the interpretation 1.1.2019 and it had no impact on opening balance of 1.1.2019.

6.6. EVENTS AFTER THE REPORTING PERIOD

On 29 January, the proposals by the Shareholders' Nomination Board to the Annual General Meeting were announced. The Nomination Board proposes that the number of members of the Board of Directors would be seven and that of the present members Tiina Lencioni, Jukka Ohtola, Anette Rosengren, Torsten Steenholt and Sanna Suvanto-Harsaae would be re-elected and that Jukka Leinonen and Jyrki Mäki-Kala would be elected as new members.

Further, the Nomination Board proposes that the remuneration to be paid to the members of the Board of Directors during the next term would consist of a monthly term of office fee as follows: EUR 4 000 per month, Chairman; EUR 2 500 per month, Vice Chairman; EUR 2 000 per month, member. In addition to the monthly fee, the Board members would receive a meeting fee for the Board of Directors and Board Committee meetings of EUR 600 per meeting for Board members residing in Finland and EUR 1 200 per meeting for Board members residing abroad. Travel expenses would be reimbursed in accordance with the company's travel policy.

In addition, the Nomination Board proposes to amend the Charter of the Shareholders' Nomination Board so that the three largest shareholders shall be determined on the first banking day of June each year (currently determined on the first banking day of September each year).

Parent Company Financial Statements

ALTIA PLC INCOME STATEMENT (FAS)

EUR million	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
NET SALES	1.	208.7	205.3
Increase (+) / decrease (–) in inventories of finished goods and work in progress		-1.8	-0.1
Other operating income	2.	18.4	20.0
Materials and services			
Raw materials. consumables and goods			
Purchases during the period		-121.2	-128.9
Change in inventories		-3.9	5.3
External services		-0.1	-0.1
Total materials and services		**-125.1**	**-123.6**
Personnel expenses	3.		
Wages and salaries		-22.5	-23.8
Indirect employee expenses			
Pension expenses		-6.0	-5.8
Other indirect employee expenses		-0.7	-0.9
Total personnel expenses		**-29.2**	**-30.6**
Depreciation, amortisation and impairment losses			
Depreciation and amortisation according to plan		-11.8	-11.6
Total depreciation, amortisation and impairment losses		**-11.8**	**-11.6**
Other operating expenses	4.	-46.2	-50.5
OPERATING RESULT		**13.0**	**8.9**

EUR million	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Finance income and expenses	5.		
Income from Group companies		27.7	6.7
Income from participating interests		0.9	0.9
Income from other investments held as non-current assets			
From others		-	0.1
Other interest and finance income			
From Group companies		0.3	0.4
From others than Group companies		3.0	3.3
Interest and other finance expenses			
To Group companies		-0.2	-0.1
To others than Group companies		-4.7	-5.4
Total finance income and expenses		**26.9**	**6.0**
RESULT BEFORE APPROPRIATIONS AND TAXES		**39.9**	**14.8**
Appropriations	6.		
Depreciation difference increase (–) /decrease (+)		1.1	1.0
Group contribution		-	-0.0
Income tax expense	7.		
Current period taxes		-2.4	-1.7
Deferred taxes		-0.1	0.1
Other direct taxes		0.1	-0.1
Total income taxes		**-2.5**	**-1.7**
RESULT FOR THE PERIOD		**38.6**	**14.1**

ALTIA PLC BALANCE SHEET (FAS)

EUR million	Note	31 Dec 2019	31 Dec 2018
ASSETS			
NON-CURRENT ASSETS	8.		
Intangible assets			
Intangible rights		10.0	12.0
Other capitalised long-term expenditure		6.2	7.7
Prepayments		2.0	1.7
Intangible assets total		**18.1**	**21.4**
Tangible assets			
Land and water areas		2.4	2.4
Buildings and structures		21.0	21.9
Machinery and equipment		26.1	27.8
Other tangible assets		0.5	0.5
Prepayments and assets under construction		1.5	1.5
Tangible assets total		**51.6**	**54.2**
Investments			
Holdings in Group companies		206.8	206.8
Participating interests		8.2	8.0
Other shares and investments		0.8	0.8
Investments total		**215.9**	**215.7**
TOTAL NON-CURRENT ASSETS		**285.6**	**291.3**

		31 Dec 2019	31 Dec 2018
CURRENT ASSETS			
Inventories	9.		
Materials and supplies		17.9	21.8
Work in progress		10.3	10.3
Finished goods		9.8	11.6
Advance payments		0.1	-
Inventories total		**38.1**	**43.7**
Non-current receivables	10.		
Receivables from Group companies		14.8	15.8
Deferred tax assets		0.6	0.5
Non-current receivables total		**15.4**	**16.3**
Current receivables	11.		
Trade receivables		26.7	25.3
Receivables from Group companies		113.0	12.2
Receivables from participating interest undertakings		0.1	0.1
Other receivables		0.0	0.0
Accrued income and prepaid expenses		3.2	3.6
Current receivables total		**143.1**	**41.3**
Cash at hand and in banks		61.0	40.6
TOTAL CURRENT ASSETS		**257.6**	**141.9**
TOTAL ASSETS		**543.2**	**433.2**

ALTIA PLC BALANCE SHEET (FAS)

EUR million	Note	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITIES			
Equity	13.		
Share capital		60.5	60.5
Invested unrestricted equity fund		1.2	1.2
Hedge reserve		-0.9	0.0
Retained earnings		57.1	56.8
Profit for the period		38.6	14.1
TOTAL EQUITY		**156.6**	**132.6**
Appropriations	14.		
Depreciation difference		**20.5**	**21.6**
Provisions			
Other provisions		-	**0.5**
Liabilities			
Non-current	15.		
Loans from financial institutions		65.0	70.0
Loans from pension institutions		11.3	12.8
Liabilities to Group companies		2.0	1.8
Deferred tax liabilities		-	0.0
Other liabilities		4.9	4.9
Non-current liabilities total		**83.2**	**89.5**
Current			
Loans from financial institutions		5.0	5.0
Loans from pension institutions		1.5	1.5
Trade payables		13.1	10.4
Liabilities to Group companies	16.	208.4	117.7
Other liabilities		37.2	39.2
Accrued expenses and deferred income	17.	17.8	15.3
Current liabilities total		**283.0**	**189.1**
TOTAL LIABILITIES		**366.2**	**278.6**
TOTAL EQUITY AND LIABILITIES		**543.2**	**433.2**

ALTIA PLC STATEMENT OF CASH FLOWS (FAS)

EUR million	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
CASH FLOW FROM OPERATING ACTIVITIES			
Result before taxes		41.0	15.8
Adjustments			
Depreciation, amortisation and impairment		11.8	11.6
Gain/loss from disposal of property, plant and equipment and intangible assets		-0.0	-0.5
Finance income and costs		-26.9	-6.0
Change in depreciation difference		-1.1	-1.0
Other adjustments		-0.5	0.6
		-16.7	**4.8**
Change in working capital			
Change in inventories, increase (-) / decrease (+)		5.6	-5.2
Change in trade and other receivables, increase (-) / decrease (+)		-0.1	-7.2
Change in trade and other payables, increase (+) / decrease (-)		1.3	-1.9
Change in working capital		6.7	-14.3
Interest paid		-1.5	-1.5
Interest received		0.5	0.7
Other finance income and expenses paid		-0.6	-0.6
Income taxes paid		-0.9	-3.2
Financial items and taxes		-2.5	-4.5
NET CASH FLOW FROM OPERATING ACTIVITIES		**28.6**	**1.7**
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		-5.9	-7.0
Proceeds from sale of property, plant and equipment and intangible assets	2.	0.0	0.5
Investments in participating interest companies		-0.2	-
Repayment of loan receivables		1.0	2.0
Dividends received	5.	0.9	7.8
NET CASH FLOW FROM INVESTING ACTIVITIES		**-4.2**	**3.3**

EUR million	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from current borrowings	16.	17.9	6.9
Repayment of current borrowings	16.	-1.6	-20.7
Proceeds from non-current borrowings		-	20.0
Repayment of non-current borrowings	15.	-6.5	-21.3
Dividends paid and other distributions of profits	13.	-13.7	-
Share issue, personnel offering		-	1.2
Group contributions paid		-0.0	-
NET CASH FLOW FROM FINANCING ACTIVITIES		**-3.9**	**-13.8**
CHANGE IN CASH AND CASH EQUIVALENTS		**20.5**	**-8.8**
Cash and cash equivalents at the beginning of the period		40.6	49.4
Change in cash and cash equivalents		20.5	-8.8
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**61.0**	**40.6**

Notes to Altia Plc financial statements

Accounting policies for financial statements

The financial statements of the parent company are prepared in accordance with the Finnish accounting legislation.

Non-current assets and depreciations

Non-current assets are recognised in the balance sheet at acquisition cost less depreciations. The depreciation periods for non-current assets are:

Trademarks	10–15 years
IT- development and software	3–5 years
Buildings and structures	10–40 years
Machinery and equipment	10 years
Other tangible assets	3–10 years

Holdings in Group companies and other shares and investments included in non-current assets are measured at acquisition cost or fair value, if lower.

Inventories

Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices, except cognac products, which are measured at weighted average cost. Fixed production costs are allocated to the cost of own production. Raw materials, supplies and trading goods are measured at weighted average cost. Repacked trading goods are measured at standard cost in repacking plant.

The cost of finished products and work in progress includes raw materials, direct labour costs, other direct costs as well as an allocable proportion of variable procurement and production costs and fixed overheads in case of finished products, determined based on normal operating capacity. Net realisable 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.

Pension plans

The pension plans of the parent company are arranged through pension insurance companies. Pension expenses are accrued to correspond to the performance-based salaries in the financial statements.

Cash Pool

The Group has applied the so called cash pool arrangement, which enables efficient management of the parent company's and subsidiaries' cash and cash equivalents.

Leases

All lease payments are recognised as rental expenses.

Financial Derivatives

Fair value measurement compliant with Chapter 5, section 2a of the Accounting Act is applied to the accounting treatment of financial derivatives.

Derivatives are included in financial assets and liabilities at fair value through profit or loss when they do not meet the criteria of hedge accounting. These derivatives are recognised at fair value on the trade date and they are subsequently measured at fair value at the reporting date. The fair values of derivatives equal the amount that Altia Plc would have to pay or it would receive from the termination of the derivative contract at the reporting date. The fair values of forward exchange contracts are determined by using the market prices at the reporting date. The fair values of interest rate derivatives are determined by discounting the related future cash flows. The valuation of commodity derivatives is determined based on the fair values received from the financial markets.

All derivatives for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy level 1–3. The levels of fair value hierarchy reflect the significance of inputs used in determining the fair values. In level one, fair values are based on public quotations of identical financial instruments. In level two, the inputs used in determining the fair values are based on quoted market rates and prices observable for the asset or liability in question directly (i.e. price) or indirectly on discounted future cash flows. Fair values of other financial assets and liabilities in level two reflect their carrying value. In level three, the fair values of assets and liabilities are based on inputs that are not based on observable market data for all significant variables, and instead are, to a significant extent, based on management estimates and their use in generally accepted valuation techniques.

The fair values of the financial instruments are determined by using the market prices on the closing date of the reporting period.

Hedge accounting

The parent company applies hedge accounting when the change in fair value is recognised in the hedge reserve under equity. In Altia Oyj, cash flow hedging is applied to part of the interest rate, foreign currency and electricity derivatives based on case-by-case assessment. In cash flow hedging, Altia Oyj is hedging against changes in cash flows related to a specific asset or liability recognised in the balance sheet or to a highly probable future business transaction. In the beginning of the hedging arrangement, company documents the relationship between each hedging instrument and hedged item, as well as the objectives of risk management and the strategy in engaging in hedging. Effectiveness means the ability of a hedging instrument to offset the changes in the fair value of the hedged item or changes in the cash flows of the hedged transaction attributable to the hedged risk. The hedging relationship is regarded to be highly effective when there is an economic relationship between the hedged item and the value of the hedging instrument and the value of the hedged item moves to the opposite direction due to same risk. Hedge accounting is discontinued when the criteria for hedge accounting is no longer met.

The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied, are presented in congruence with the hedged item. The effective portion of the unrealised changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in the hedge reserve in equity. The ineffective portion is immediately recognised in profit or loss in finance income or expense.

The cumulative gain or loss in equity on derivative instruments related to commercial items is recognised in profit or loss as an adjustment to purchases or sales simultaneously with the hedged item in the period in which the hedged item affects profit or loss. Realised gain or loss on electricity derivatives is included in operating result in electricity procurement expenses. When a hedging instrument designated as a cash flow hedge expires, is sold or no longer meets the criteria of hedge accounting, the gain or loss accumulated in equity is recognised through profit or loss either as an adjustment to purchases or sales when hedging is effective or as finance income or expense when hedge accounting criteria is not met.

Research and development expenditure

Research and development expenditure is recognised as an annual expense as incurred.

Financial securities

Financial securities are recognised at acquisition cost or lower.

Receivables

Receivables are measured at acquisition cost or probable value, if lower.

Sale of trade receivables

The sold receivables are derecognised when the receivable has been sold and the sales price for it has been received. The related costs are recognised in other financial expenses.

Non-current financial liabilities

Non-current financial liabilities are recognised at acquisition cost.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax legislation, adjustments to taxes in previous financial years and the change in deferred taxes.

Foreign currency denominated items

Foreign currency denominated receivables and liabilities are translated to Finnish currency at the rates of the closing date of the reporting period.

1. NET SALES

EUR million	2019	2018
Net sales by business areas		
Alcohol beverages	105.0	100.7
Industrial services	103.4	102.8
Other	0.3	1.8
TOTAL	**208.7**	**205.3**
Net sales by geographic areas		
Finland	157.0	154.9
Europe	50.3	49.3
Rest of the world	1.4	1.0
TOTAL	**208.7**	**205.3**

2. OTHER OPERATING INCOME

EUR million	2019	2018
Rental income	1.1	1.0
Income from energy sales	3.4	3.4
Proceeds from disposal of non-current assets	0.0	0.5
Service income	11.6	13.3
Other income	2.4	1.8
TOTAL	**18.4**	**20.0**

3. NOTES RELATED TO PERSONNEL

EUR million	2019	2018
Wages and salaries	22.5	23.8
Pension expenses	6.0	5.8
Other social expenses	0.7	0.9
TOTAL	**29.2**	**30.6**

EUR million	2019	2018
Fringe benefits (taxable value)	0.7	0.7

The average number of personnel during the reporting period	2019	2018
Workers	210	209
Clerical employees	208	218
TOTAL	**418**	**427**

Management remuneration, EUR million	2019	2018
CEO	0.3	0.6
Board members	0.3	0.3

Pension commitments of the Board and CEO

The retirement age of the CEO of the company is 63 years.

4. OTHER OPERATING EXPENSES

EUR million	2019	2018
Rental expenses	2.0	2.2
Marketing expenses	5.9	6.2
Energy expenses	7.2	7.2
Travel and representation expenses	1.1	1.3
Repair and maintenance expenses	6.0	6.2
IT expenses	5.6	6.4
Outsourcing services	5.4	6.8
Variable sales expenses	5.5	5.7
Other expenses	7.4	8.6
TOTAL	**46.2**	**50.5**
Auditor's fees		
Audit fees	0.2	0.1
Tax consultation	0.0	0.0
Other fees	0.2	0.5
TOTAL	**0.4**	**0.6**

Environmental expenses

The company's environmental expenses did not have a significant impact on the profit for the period and on the financial position.

5. FINANCE INCOME AND EXPENSES

EUR million	2019	2018
Dividend income		
From Group companies	27.7	6.7
From participating interest undertakings	0.9	0.9
From others	-	0.1
Total dividend income	**28.6**	**7.8**
Interest income		
From Group companies	0.3	0.4
From others	0.2	0.1
Total interest income	**0.5**	**0.4**
Other finance income		
From others	2.7	3.3
Total other finance income	**2.7**	**3.3**
TOTAL FINANCE INCOME	**31.9**	**11.5**
Interest expenses		
To Group companies	0.2	0.1
To others	1.4	1.6
Total interest expenses	**1.6**	**1.7**
Other finance expenses		
To others	3.3	3.8
Total other finance expenses	**3.3**	**3.8**
TOTAL FINANCE EXPENSE	**4.9**	**5.5**
TOTAL FINANCE INCOME AND EXPENSES	**26.9**	**6.0**
The following items are included in finance items of the income statement from fair value hedges:		
Other finance income		
Fair value changes of derivatives	-0.0	0.1

6. APPROPRIATIONS

EUR million	2019	2018
Difference between depreciations according to plan and depreciations made in taxation:		
Intangible rights	0.1	-0.3
Other intangible assets	-	-0.0
Buildings and structures	0.8	0.7
Machinery and equipment	0.2	0.6
Other tangible assets	-0.0	-0.0
TOTAL	**1.1**	**1.0**

7. INCOME TAX EXPENSE

EUR million	2019	2018
Income taxes from current period	-2.4	-1.7
Income taxes from previous periods	0.1	-0.1
Change in deferred tax assets	-0.1	0.1
TOTAL	**-2.5**	**-1.7**

8. SPECIFICATION OF NON-CURRENT ASSETS

EUR million	2019	2018
Intangible assets		
Intangible rights		
Acquisition cost at 1 January	32.7	30.1
Additions	0.1	0.9
Disposals	-	-0.0
Transfers between items	1.5	1.7
Acquisition cost at 31 December	**34.3**	**32.7**
Accumulated amortisation at 1 January	-20.7	-17.5
Accumulated amortisation on disposals and transfers	-	0.0
Amortisation for the period	-3.7	-3.2
Accumulated amortisation at 31 December	-24.3	-20.7
CARRYING AMOUNT AT 31 DECEMBER	**10.0**	**12.0**
Goodwill		
Acquisition cost at 1 January	17.6	17.6
Acquisition cost at 31 December	**17.6**	**17.6**
Accumulated amortisation at 1 January	-17.6	-17.6
Accumulated amortisation at 31 December	-17.6	-17.6
CARRYING AMOUNT AT 31 DECEMBER	**-**	**-**
Other intangible assets		
Acquisition cost at 1 January	24.3	24.3
Additions	-	0.0
Acquisition cost at 31 December	**24.3**	**24.3**
Accumulated amortisation at 1 January	-16.6	-15.0
Amortisation for the period	-1.6	-1.6
Accumulated amortisation at 31 December	-18.2	-16.6
CARRYING AMOUNT AT 31 DECEMBER	**6.2**	**7.7**
Prepayments in intangible assets		
Acquisition cost at 1 January	1.7	2.8
Additions	1.8	0.6
Transfers between items	-1.5	-1.7
CARRYING AMOUNT AT 31 DECEMBER	**2.0**	**1.7**

EUR million	2019	2018
Tangible assets		
Land and water areas		
Acquisition cost at 1 January	2.4	2.5
Disposals	-	-0.0
CARRYING AMOUNT AT 31 DECEMBER	**2.4**	**2.4**
Buildings and structures		
Acquisition cost at 1 January	95.9	94.8
Additions	1.1	1.0
Transfers between items	0.7	0.6
Disposals	-	-0.5
Acquisition cost at 31 December	**97.8**	**95.9**
Accumulated depreciation at 1 January	-74.0	-71.8
Accumulated depreciation on disposals and transfers	-	0.5
Depreciation for the period	-2.7	-2.7
Accumulated depreciation at 31 December	-76.8	-74.0
CARRYING AMOUNT AT 31 DECEMBER	**21.0**	**21.9**
Machinery and equipment		
Acquisition cost at 1 January	116.2	110.1
Additions	1.3	3.0
Disposals	-0.0	-1.0
Transfers between items	0.8	4.0
Acquisition cost at 31 December	**118.3**	**116.2**
Accumulated depreciation at 1 January	-88.4	-85.1
Accumulated depreciation on disposals and transfers	0.0	0.8
Depreciation for the period	-3.8	-4.1
Accumulated depreciation at 31 December	-92.2	-88.4
CARRYING AMOUNT AT 31 DECEMBER	**26.1**	**27.8**
Other tangible assets		
Acquisition cost at 1 January	0.5	0.5
Acquisition cost at 31 December	0.5	0.5
CARRYING AMOUNT AT 31 DECEMBER	**0.5**	**0.5**
Prepayments and assets under construction		
Acquisition cost at 1 January	1.5	4.7
Additions	1.5	1.5
Transfers between items	-1.5	-4.7
CARRYING AMOUNT AT 31 DECEMBER	**1.5**	**1.5**
CARRYING AMOUNT OF MACHINERY AND EQUIPMENT USED IN PRODUCTION AT 31 DECEMBER	**25.6**	**27.1**

EUR million	2019	2018
Investments		
Holdings in Group companies		
Acquisition cost at 1 January	358.3	358.3
Additions	103.2	-
Disposals	-103.2	-
Acquisition cost at 31 December	**358.3**	**358.3**
Accumulated impairment at 1 January	-151.5	-151.5
Accumulated impairment at 31 December	-151.5	-151.5
CARRYING AMOUNT AT 31 DECEMBER	**206.8**	**206.8**
Participating interests		
Acquisition cost at 1 January	8.0	8.0
Additions	0.2	-
CARRYING AMOUNT AT 31 DECEMBER	**8.2**	**8.0**
Other shares and investments		
Acquisition cost at 1 January	0.8	0.8
CARRYING AMOUNT AT 31 DECEMBER	**0.8**	**0.8**

9. INVENTORY

There is no significant difference between the repurchase price and cost of inventories.

10. NON-CURRENT RECEIVABLES

EUR million	2019	2018
Receivables from Group companies		
Loan receivables	14.8	15.8
Deferred tax assets		
Recognised in hedge reserve	0.2	-
Provisions	-	0.1
Fixed assets deferred depreciations	0.4	0.4
Deferred tax assets total	0.6	0.5
TOTAL NON-CURRENT RECEIVABLES	**15.4**	**16.3**

11. CURRENT RECEIVABLES

EUR million	2019	2018
Receivables from Group companies		
Trade receivables	3.2	3.0
Loan receivables*	103.2	-
Cash Pool receivables	0.5	0.4
Other receivables	4.6	4.8
Derivatives	0.2	0.1
Accrued income and prepaid expenses	1.4	3.9
Total	**113.0**	**12.2**
Receivables from participating interest undertakings		
Trade receivables	0.1	0.1
Total	**0.1**	**0.1**
Receivables from others		
Trade receivables **	26.7	25.3
Other receivables	0.0	0.0
Accrued income and prepaid expenses	3.2	3.6
Total	**29.9**	**29.0**
TOTAL CURRENT RECEIVABLES	**143.1**	**41.3**
Accrued income and prepaid expenses		
Significant items in accrued income and prepaid expenses:		
Derivatives	0.4	1.6
Taxes	-	0.6
Others	2.9	1.5
Total	**3.2**	**3.6**

* relates to Group internal structural changes
** Does not include the sold trade receivables

12. DISCLOSURES ON FAIR VALUES (DERIVATIVES)

	2019			2018		
EUR million	Fair value 31 Dec	Changes in the fair value recognised in the income statement	Changes in the fair value recognised in fair value reserve	Fair value 31 Dec	Changes in the fair value recognised in the income statement	Changes in the fair value recognised in fair value reserve
Derivative instruments						
Interest rate derivatives (level 2)	-1.2	-	-1.2	-1.3	-	-1.3
Foreign exchange derivatives (level 2)	-0.2	-0.0	-0.2	0.1	0.1	-0.0
Commodity derivatives (level 2)	0.3	-	0.3	1.3	-	1.3
TOTAL	**-1.1**	**-0.0**	**-1.1**	**0.1**	**0.1**	**0.0**

13. EQUITY

EUR million	2019	2018
Restricted equity		
Share capital at 1 January	60.5	60.5
Share capital at 31 December	**60.5**	**60.5**
Hedge reserve at 1 January	0.0	-0.4
Additions and disposals	-0.9	0.4
Hedge reserve at 31 December	**-0.9**	**0.0**
Total restricted equity	**59.6**	**60.5**
Unrestricted equity		
Invested unrestricted equity fund	1.2	1.2
Retained earnings at 1 January	70.9	56.8
Distribution of dividends	-13.7	-
Profit for the period	38.6	14.1
Total unrestricted equity	**96.9**	**72.1**
TOTAL EQUITY	**156.6**	**132.6**
Distributable unrestricted equity		
Calculation of distributable equity		
Invested unrestricted equity fund	1.2	1.2
Retained earnings	70.9	56.8
Distribution of dividends	-13.7	-
Profit for the period	38.6	14.1
TOTAL DISTRIBUTABLE UNRESTRICTED EQUITY	**96.9**	**72.1**
Company's share capital:		
Number of shares outstanding at the end of the period	36 140 485	36 140 485

14. APPROPRIATIONS

EUR million	2019	2018
Depreciation difference		
Intangible rights	2.6	2.7
Other intangible assets	0.1	0.1
Buildings and structures	2.7	3.5
Machinery and equipment	15.1	15.3
Other tangible assets	-0.0	-0.0
TOTAL	**20.5**	**21.6**

15. LIABILITIES

EUR million	2019	2018
Non-current		
Loans from financial institutions	65.0	70.0
Loans from pension institutions	11.3	12.8
Liabilities to Group companies	2.0	1.8
Deferred tax liabilities	-	0.0
Other liabilities	4.9	4.9
TOTAL	**83.2**	**89.5**

16. LIABILITIES TO GROUP COMPANIES

EUR million	2019	2018
Trade payables	0.7	1.3
Liabilities to Group companies*	103.2	29.3
Cash Pool liabilities	102.1	84.3
Derivative instruments	0.0	0.1
Other accrued expenses	2.4	2.8
TOTAL	**208.4**	**117.7**

* relates to Group internal structural changes

17. ACCRUED EXPENSES AND DEFERRED INCOME

EUR million	2019	2018
Significant items under accrued expenses:		
Holiday pay and other wages and salaries	5.1	5.4
Contract discount	0.7	0.5
Procurement expenses and other accrued expenses	9.6	7.9
Taxes	0.8	-
Derivative instruments	1.7	1.5
TOTAL	**17.8**	**15.3**

18. COLLATERALS AND COMMITMENTS

EUR million	2019	2018
Collaterals given on behalf of the Group companies		
Mortgages	18.5	18.5
Guarantees	5.9	5.3
TOTAL COLLATERALS	**24.4**	**23.8**
Commitments and other contingencies		
Operating and finance lease obligations		
Not later than one year	0.6	0.6
Later than one year	0.7	0.5
Total	**1.2**	**1.1**
Lease obligations		
Not later than one year	0.6	0.7
Later than one year	0.8	1.4
Total	**1.5**	**2.1**
Other obligations		
Not later than one year	5.1	3.6
Total	**5.1**	**3.6**
TOTAL COMMITMENTS	**7.8**	**6.8**

VAT liability for real estate investments

The company is liable to review VAT deductions made for real estate investments completed in 2011–2019 if the use subject to VAT decreases during the review period. The maximum liability is EUR 1.3 million and the last year to review is 2028.

Derivative contracts EUR million	2019	2018
Electricity derivatives		
Fair value	0.3	1.3
Nominal value	1.3	1.9
Amount (TWh)	0.1	0.1
Parent company's external forward exchange contracts		
Fair value	-0.4	0.1
Nominal value	28.3	64.6
Parent company's internal forward exchange contracts		
Fair value	0.2	0.0
Nominal value	13.8	18.9
Interest rate derivatives		
Fair value	-1.2	-1.3
Nominal value	20.0	20.0

Emission allowances (kilotons)	2019	2018
Emission allowances received	26.4	26.9
Excess emission allowances from the previous year	30.6	45.6
Adjustments related to prior year's estimates	-0.0	0.0
Sold emission allowances	-33.0	-20.0
Realised emissions	-20.0	-21.9
EMISSION ALLOWANCES AT 31 DECEMBER	**4.0**	**30.6**
Fair value of the remaining emission allowances, EUR million	0.1	0.7

The received emission allowances and the realised emission of the year 2019 are estimates which will be adjusted during spring 2020 if necessary. Altia continues to operate within the emission trading system for the trading period 2013-2020.

19. RELATED PARTY TRANSACTIONS

Related party transactions are carried out at market value. More information about related party transactions is presented in Group Note 6.3. Management remuneration is presented in Altia Plc Note 3.

Board of Directors' proposal for the distribution of profits

According to the balance sheet at 31 December 2019, Altia Plc's distributable earnings amount to EUR 96,936,528.11 including profit for the period of EUR 38,585,786.54.

There have been no significant changes to the parent company's financial position at the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.42 per share be paid for the financial year 2019.

Signatures to the Board of Directors' Report and to the financial statements

Helsinki, 12 February 2020

Sanna Suvanto-Harsaae
Chairman

Anette Rosengren | Kim Henriksson | Tiina Lencioni

Torsten Steenholt | Kai Telanne | Jukka Ohtola

Pekka Tennilä
CEO

The Auditors' Note

An auditor´s report concerning the performed audit has been given to date.

Helsinki, 12 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Altia Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Altia Oyj (business identity code 1505555-7) for the year ended 31 December 2019. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

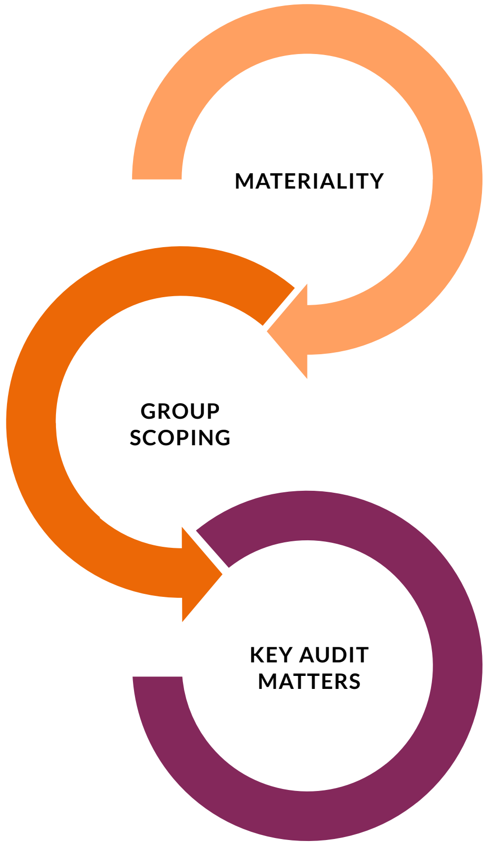
We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

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

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 1.6 to the Financial Statements.



Our Audit Approach

Overview

MATERIALITY

- Overall group materiality: € 3.5 million

GROUP SCOPING

- The group audit included the parent company and all significant subsidiaries covering the vast majority of net sales, assets and liabilities.

KEY AUDIT MATTERS

- Revenue recognition
- Valuation of inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 3.5 million
How we determined it	1% of net sales
Rationale for the materiality benchmark applied	The group's result has been volatile over the last few years and the profitability has been impacted e.g. by fluctuations in barley prices. Therefore, we chose net sales as the benchmark because it provides a consistent year-on-year basis for determining materiality. In addition, it is a benchmark against which the performance of the group is commonly measured by users. We used 1 % of net sales, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the size, complexity and risks of individual subsidiaries. Altia Group has operations in the Nordic countries, Baltics and France. The main accounting areas for subsidiaries in the Nordic countries are handled centrally in Finland.

We performed group audit procedures on all significant account balances covering the vast majority of the group's net sales, assets and liabilities. In addition, we performed analytical procedures at group level of the remaining balances.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Revenue recognition Refer to note 1.1 in the consolidated financial statements Altia's revenue flows are generated by the sale of own products and partner brands, contract manufacturing and sale of industrial products. The transaction price may include variable considerations such as volume discounts, bonuses, marketing support and product returns. Due to a variety of contractual terms, the calculation of period's variable components is a complex accounting area that include management judgement. We have accordingly considered the risk that revenue is not recorded in the correct period to be a key audit matter.	Our audit procedures included e.g. the following: • We gained an understanding of the nature of the revenue flows and different contractual terms used. • We compared the accounting treatment of a sample of sales transactions and variable consideration to the terms of underlying contracts. • We assessed the Group's accounting policies over revenue recognition. • We tested a sample of sales transactions against incoming cash. • We tested a sample of sales invoices recorded in December 2019 and January 2020 to evaluate that revenue had been recognised in the right period. • For selected revenue and accounts receivable balances we obtained customer confirmations.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Valuation of inventory Refer to note 2.4 in the consolidated financial statements Inventory forms a significant part of the Group's assets, amounting to EUR 92,0 million as of 31 December 2019. Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices or weighted average cost. Fixed production costs are allocated to the cost of own production. Management exercises judgement and applies assumptions when estimating the need for an obsolescence provision. This includes identification of slow moving and seasonal products, changes in product portfolio and consideration of sales forecasts. Given the factors described above, we have considered valuation of inventory to be a key audit matter.	Our audit procedures included e.g. the following: • We gained an understanding of the controls established in relation to inventory valuation. • We assessed the adequacy of the obsolescence provision and checked adherence to the Group's accounting policy. • We tested, on a sample basis, the accuracy of cost for self-manufactured products by comparing the actual production costs to market and other price data. • We tested a sample of inventory items to confirm whether they are held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices. • For a sample of warehouses, we attended the physical stock-take counting or reconciled third party confirmations with the accounting records.

We have no key audit matters to report with respect to our audit of the parent company financial statements.
There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 29 March 2016. Our appointment represents a total period of uninterrupted engagement of 4 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.
Our opinion on the financial statements does not cover the other information.
In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

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

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

Helsinki 12 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant (KHT)

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JANUARY–JUNE 2020

Half-Year Report

ALTIA

Strong result in an exceptional market environment

January–June 2020 compared to January–June 2019

- Reported net sales decreased by 9.5% to EUR 149.3 (165.0) million
- In constant currencies, net sales decreased by 8.4%
- The Finland & Exports segment's net sales were EUR 53.0 (59.6) million
- The Scandinavia segment's net sales were EUR 50.1 (50.7) million; in constant currencies net sales grew by 2.5%
- Altia Industrial's net sales were EUR 46.1 (54.7) million
- Comparable EBITDA was EUR 18.8 (13.7) million, 12.6% (8.3%) of net sales
- Reported EBITDA was EUR 18.0 (13.5) million, 12.1% (8.2%) of net sales
- Net cash flow from operating activities was EUR 10.3 (-4.0) million
- Net debt / comparable EBITDA (rolling 12 months) was 0.6 (2.0)

April–June 2020 compared to April–June 2019

- Reported net sales were EUR 81.0 (91.2) million
- In constant currencies, net sales decreased by 10.3% compared to previous year
- Comparable EBITDA was EUR 13.2 (9.4) million, 16.3% (10.4%) of net sales
- Reported EBITDA was EUR 12.6 (9.2) million, 15.5% (10.1%) of net sales

- Guidance remains suspended due to the prolonged uncertainties related to COVID-19. A new guidance will be provided if the impacts of COVID-19 on the operating environment and business conditions can be assessed in a reliable manner.

This half-year report has been prepared in accordance with the International Financial Reporting Standards (IFRS) and IAS 34 Interim Financial Reporting as approved by the EU. The figures in the report are unaudited. A reconciliation of alternative key ratios to IFRS figures is presented in appendix 1 on page 32.

KEY FIGURES

	Q2 20	Q2 19	H1 20	H1 19	2019
Net sales, EUR million	81.0	91.2	149.3	165.0	359.6
Comparable EBITDA, EUR million	13.2	9.4	18.8	13.7	44.8
% of net sales	16.3	10.4	12.6	8.3	12.4
EBITDA, EUR million	12.6	9.2	18.0	13.5	43.1
Comparable operating result, EUR million	8.9	5.0	9.9	4.7	26.8
% of net sales	10.9	5.5	6.7	2.9	7.5
Operating result, EUR million	8.2	4.8	9.2	4.5	25.1
Result for the period, EUR million	6.1	3.6	7.5	4.0	18.4
Earnings per share, EUR	0.17	0.10	0.21	0.11	0.51
Net cash flow from operating activities, EUR million	25.7	24.7	10.3	-4.0	52.6
Net debt / comparable EBITDA, rolling 12 months	0.6	2.0	0.6	2.0	0.6
Average number of personnel	659	705	651	701	682

CEO Pekka Tennilä:

“Considering the exceptional conditions, I am proud to say that we are managing the COVID-19 crisis extremely well, and Altia has shown resilience. During the second quarter of 2020, COVID-19 impacted our business significantly and it brought uncertainties to our operating environment. We reacted quickly to keep our operations running efficiently and stayed active in the sales channels that remained open, while securing the safety of our employees. At the same time, we made an important contribution to society by meeting the high demand for denatured ethanol for hand sanitisers. To mitigate the impacts of COVID-19 we implemented remote and part-time work as well as temporary lay-offs and cost savings measures. I want to express my sincere thanks to all our skilled employees for their commitment and hard work during these challenging times.

In Q2, the important sales channels – travel retail, on-trade and exports – were closed and our beverage net sales decreased, but not in the extent that we expected in the Q1 report. With consumers shifting purchases to the monopolies, the volume growth in the monopolies has been at an all-time high. Our performance in the monopoly channel has been strong led by double-digit net sales growth in spirits in all monopoly countries. Net sales in the Finland & Exports segment declined due to sales in travel retail, exports and on-trade being close to zero. However, in Finland, sales growth in the monopoly and grocery trade channels, and our focus on revenue management increased total beverage sales and improved profitability. In the Scandinavia segment, the reported net sales decline was driven by lower sales in Denmark due to the new business model and the closing of on-trade. In Sweden, our overall sales grew with strong growth in spirits sales, supported by market share growth in the strategically important gin, rum and liqueur categories. In Norway, performance was strong across all categories and we have continued to gain market share.

In Altia Industrial, thanks to a strong commitment by our employees and a clear focus on production continuity, our operations have run without major disruptions during the crisis. In industrial products, our performance was solid, driven by strong ethanol sales partly due to the increased demand for hand sanitisers. On the contract manufacturing side, we have seen a decline in volumes due to COVID-19. We are, however, extremely pleased about the renewal of the Finlandia Vodka production agreement with Brown-Forman. The renewed agreement runs until 2035 and continues a long-lasting strategic collaboration between Altia and Brown-Forman, which began already in 2000.

In the first half of the year, our profitability improved significantly from the previous year and all segments improved in a tough environment. Altia Industrial’s strong result improvement is due to the normalised barley price and the high volumes of technical ethanol. In both consumer segments, strong sales growth in the monopoly channel, revenue management and cost savings measures implemented throughout the organisation have supported positive profitability development. Comparable Group EBITDA improved by 37% or EUR 5.1 million to EUR 18.8 (13.7) million.

Altia’s financial position strengthened further during the first six months with a solid positive development of net cash flow from operations. The improvement of EBITDA and the positive development of net working capital contributed to the development and net cash flow from operations totalled EUR 10.3 (-4.0) million at the end of the period. Also, the liquidity position of the Group has remained strong throughout the period.

Altia is a forerunner in sustainability in our industry. For us, sustainability is both a strategic priority and a key success factor in business. In April, our sustainability work was recognised with a Gold Medal in the EcoVadis Corporate Social Responsibility rating. More than 55 000 companies were rated by EcoVadis and Altia was ranked among the top 2%. We got positive feedback for our advanced management system in environmental topics.

Preliminary forecasts for the barley harvest have been published and based on these the barley crop this year is likely to be smaller than last year, but in line with the long-term average crop.

Guidance for the rest of the year remains suspended due to the prolonged uncertainties related to COVID-19. New guidance will be provided if the impacts of COVID-19 on the operating environment and business conditions can be assessed in a reliable manner."

ALTIA

Financial review

Seasonality

Substantial seasonal fluctuations in the consumption of alcoholic beverages impact Altia's net sales and cash flow. The company typically generates large amounts of its revenue and cash flow during the fourth quarter of the year, and significantly lower amounts during the first quarter. In addition, excise taxes related to the high season at the end of the year are paid in January, resulting in large cash outflows at the beginning of the year.

Net sales

H1

In January–June, reported net sales decreased by 9.5% to EUR 149.3 (165.0) million. In constant currencies, net sales decreased by 8.4%. The decline in net sales is due to COVID-19 restrictions which have closed the travel retail, exports and on-trade sales channels, and has significantly impacted contract manufacturing volumes. Furthermore, the normalised barley price and the business model change in Denmark (Q2 2019) have impacted net sales negatively.

The impacts of the COVID-19 restrictions are visible across all beverage categories. Net sales of beverage products in constant currencies decreased by 4.9%. In the monopoly channel, where market volumes have been at an exceptionally high level, Altia's net sales have grown, mainly driven by double-digit net sales growth in spirits in all three monopolies and solid growth in wine. Partner portfolio changes in Q2 impacted wine sales slightly negatively. The net sales decline in Other beverages is due to partner portfolio changes last year.

Q2

In the second quarter, reported net sales decreased by 11.1% to EUR 81.0 (91.2) million. In constant currencies, net sales decreased by 10.3%. In Q2, partner changes in the wine portfolio have impacted wine sales negatively. In addition, the release of a tax provision (EUR 0.5 million) in Q2 2019 impacts year-on-year comparison negatively.

NET SALES BY SEGMENT

EUR million	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Finland & Exports	29.2	34.7	-15.9	53.0	59.6	-11.2	128.6
Scandinavia	28.1	29.0	-3.0	50.1	50.7	-1.1	120.7
Altia Industrial	23.8	27.5	-13.7	46.1	54.7	-15.6	110.2
Total	**81.0**	**91.2**	**-11.1**	**149.3**	**165.0**	**-9.5**	**359.6**

NET SALES BY PRODUCT CATEGORY

EUR million	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Spirits	28.8	31.6	-9.0	53.2	56.3	-5.5	121.3
Wine	28.0	30.9	-9.3	48.8	52.3	-6.7	124.9
Other beverages	0.5	1.2	-57.4	1.2	1.7	-29.4	3.1
Industrial products and services	23.8	27.5	-13.7	46.1	54.7	-15.6	110.2
Total	**81.0**	**91.2**	**-11.1**	**149.3**	**165.0**	**-9.5**	**359.6**

Profitability and result for the period

H1

In January-June, comparable EBITDA, i.e. EBITDA excluding items affecting comparability (IAC), was EUR 18.8 (13.7) million, which is 12.6% (8.3%) of net sales. In January-June, items affecting comparability totalled EUR -0.7 (-0.2) million and were related to restructuring and costs related to the closed voluntary pension scheme. Reported EBITDA was EUR 18.0 (13.5) million.

For the first half of the year, the improvement in comparable EBITDA amounted to EUR 5.1 milllion. The drivers of this solid profitability development are Altia Industrial segment, strong sales and continued focus on revenue management in the monopolies, and Group-wide cost savings.

Altia Industrial's comparable EBITDA improved by EUR 3.8 million to EUR 7.1 (3.3) million. The normalised barley price and the strong demand for technical ethanol have fully offset the negative impact from lower contract manufacturing volumes.

Due to COVID-19 restrictions the activity level has been low in travel retail, exports and on-trade. However, despite the negative impact due to the restrictions, profitablity has improved in both consumer segments. In the Finland & Exports segment, comparable EBITDA improved by EUR 0.1 million to EUR 8.3 (8.2) million. Strong sales development in the monopoly channel, revenue management and the implemented cost savings measures have offset the significant profit shortfall from travel retail, exports and on-trade. In the Baltics, sales and profit development was positive. In the Scandinavia segment, comparable EBITDA improved by EUR 1.1 million to EUR 2.8 (1.7) million. The solid sales to the monopolies, revenue management and the implemented cost savings measures have compensated for the shortfall in on-trade. Further, in the Scandinavia segment, the comparable EBITDA was impacted negatively by the development of the exchange rates, especially the Norwegian krona.

The release of a tax provision (EUR 0.5 million) in Q2 2019 impacts year-on-year comparison negatively.

COMPARABLE EBITDA BY SEGMENT

EUR million	Q2 20	Q2 19	H1 20	H1 19	2019
Finland & Exports	5.5	5.3	8.3	8.2	20.6
Scandinavia	2.9	2.0	2.8	1.7	12.1
Altia Industrial	4.9	2.3	7.1	3.3	11.4
Other	-0.1	-0.2	0.6	0.5	0.7
Total	**13.2**	**9.4**	**18.8**	**13.7**	**44.8**
% net sales	*16.3*	*10.4*	*12.6*	*8.3*	*12.4*

ITEMS AFFECTING COMPARABILITY

EUR million	Q2 20	Q2 19	H1 20	H1 19	2019
Comparable EBITDA	**13.2**	**9.4**	**18.8**	**13.7**	**44.8**
Net gains or losses from business and assets disposals	–	-0.1	–	-0.1	0.1
Costs for closure of business operations and restructurings	-0.2	-0.1	-0.3	-0.1	-0.2
Major corporate projects					
Costs related to the closed voluntary pension scheme	-0.5	–	-0.5	–	-1.6
Total items affecting comparability	**-0.7**	**-0.2**	**-0.7**	**-0.2**	**-1.7**
EBITDA	**12.6**	**9.2**	**18.0**	**13.5**	**43.1**

Items affecting comparability are presented in appendix 1 on page 32.

In January-June, other operating income amounted to EUR 2.9 (3.9) million, including proceeds of sales of fixed assets of EUR 0.0 (0.0) million; income from the sales of emission allowances of EUR 0.0 (0.5) million; income from the sales of mainly steam, energy and water of EUR 1.6 (1.6) million; and rental income of EUR 0.7 (0.7) million.

Employee benefit expenses totalled EUR 23.0 (23.1) million, including EUR 17.6 (17.9) million in wages and salaries. Accruals for short-term incentives are not included in the H1 2019 numbers.

Other operating expenses amounted to EUR 27.1 (32.9) million.

Net financial expenses amounted to EUR 1.0 (1.1) million. The share of profit in associates and joint ventures and income from interests in joint operations totalled EUR 1.1 (1.2) million.

Taxes for the first six months were EUR 1.9 (0.7) million which corresponds to an effective tax rate of 20.0% (15.4%).

The result for the period amounted to EUR 7.5 (4.0) million, and earnings per share were EUR 0.21 (0.11).

Q2

In the second quarter, comparable EBITDA was EUR 13.2 (9.4) million, 16.3% (10.4%) of net sales. Items affecting comparability totalled EUR -0.7 (-0.2) million. Reported EBITDA was EUR 12.6 (9.2) million.

Cash flow, balance sheet and investments

H1

In January-June, net cash flow from operations totalled EUR 10.3 (-4.0) million. The strong development in net cash flow from operations was driven by the improved EBITDA and the positive development in net working capital. All working capital items developed positively. The receivables sold amounted to EUR 67.1 (61.0) million at the end of the period. The increase in sold receivables relates to the increased receivables from the monopolies due to higher sales in the monopoly channels in Sweden and Finland together with calendar effect.

At the end of the reporting period, the Group's net debt amounted to EUR 29.9 (81.3) million. Cash and cash equivalents amounted to EUR 101.2 (27.7) million while the interest-bearing debt amounted to EUR 131.1 (109.0) million. Gearing ratio at the end of the reporting period was 20.0% (59.1%) while the equity ratio was 34.9% (35.5%). The reported net debt to comparable EBITDA was 0.6 (2.0) times. Altia Group's liquidity position has been strong throughout the period due to the positive development of operational cash flow and due to the actions to secure liquidity during the pandemic by issuing commercial papers.

The Group has a revolving credit facility of EUR 60.0 (60.0) million, of which EUR 0.0 (0.0) million was in use at the end of the reporting period. The nominal value of commercial papers issued amounted to EUR 45.0 (14.0) million at the end of the reporting period.

The total in the consolidated balance sheet was EUR 428.9 (387.7) million at the end of the period. The growth of the total balance sheet is related to the excess cash position maintained by the Group following commercial paper issues and a strong operational cash flow.

In January–June, gross capital expenditure totalled EUR 2.5 (3.2) million. Capital expenditure was related to production process investments at Rajamäki and a number of smaller improvement and maintenance investments at the Rajamäki and Koskenkorva plants have been carried out.

Q2

In the second quarter, net cash flow from operations totalled EUR 25.7 (24.7) million.

BALANCE SHEET KEY FIGURES

	H1 20	H1 19	2019
Reported net debt / comparable EBITDA	0.6	2.0	0.6
Borrowings, EUR million	121.8	97.3	82.6
Net debt, EUR million	29.9	81.3	28.9
Equity ratio, %	34.9	35.5	37.8
Gearing, %	20.0	59.1	19.1
Capital expenditure, EUR million	-2.5	-3.2	-6.8
Total assets, EUR million	428.9	387.7	400.2

Impacts of COVID-19

The restrictions and instructions from governments and health authorities have a significant impact on Altia's operating environment. The visibility for the rest of the year continues to be poor and forecasting is difficult. Uncertainty in the economy remains at a high level and the risk of an economic slowdown is high. COVID-19 key impacts and uncertainties are described below.

Consumer beverages (Finland & Exports and Scandinavia segments)

- Sales to the monopolies and the grocery trade are affected by the recovery of travel retail and on-trade channels.
- Despite consumers shifting purchases of alcoholic beverages to monopolies and the exceptionally high monopoly volumes, the sales to monopolies will not compensate the shortfall coming from travel retail, exports and on-trade.
- A possible second wave of COVID-19 could impact consumer behaviour.
- The recovery of travel retail, exports and on-trade depends on the level and extent of governmental restrictions and recommendations on travelling, movement and social distancing.
- The pace of recovery is difficult to estimate. It is affected by changes in consumer behaviour and expected to vary across sales channels: on-trade channels could be expected to recover faster than travel retail.
- Uncertainty in the sales to the monopoly channel is related to 1) the monopoly channel remaining open and continuing normal operations which could be dependent on for example the health of the monopolies' personnel and political decision-making, and to 2) Altia's ability to deliver products.

Altia Industrial

- Uncertainty is high both in industrial products and services. The demand for starch has slightly weakened due to the soft paper industry market. The stable development of feed component volumes are expected to continue. The demand for technical ethanol is expected to remain at a higher level than in the previous year. Volumes in industrial services are expected to be negatively impacted by COVID-19.
- Uncertainty in Altia's ability to deliver to the open sales channels (monopolies and grocery trade) relates to the availability of products and raw materials such as bulk wine, partner goods and dry goods.
- Uncertainty in production is related to the health and safety of Altia's employees and the availability of machinery spare parts and maintenance workforce.

Measures to adjust cost structure

- Close follow-up of sales and profitability development continues, and additional cost savings actions are implemented when necessary.

Group financial position

- The strict focus on net working capital management will continue in the upcoming quarters together with other liquidity securing actions.
- Due to the COVID-19 uncertainties, Altia has assessed the impact of the pandemic on its financial position and has considered the values of assets and liabilities that include critical accounting estimates and require management judgement. Based on this assessment, Altia has not identified any indication of goodwill impairment.
- The credit risk of trade receivables and the amount of bad debt provision has been analysed at the end of reporting period with the conclusion being there is sufficient provision in place.

Market development in January–June

The exceptionally high market volumes in the Nordic monopolies are related to COVID-19 restrictions and consumers shifting purchases from travel retail and on-trade to the monopolies. In January-June, the market volumes in the Nordic monopolies grew in total by 15.6%. Spirits grew by 15.7% and wine by 15.6%.

DEVELOPMENT OF WINE AND SPIRITS SALES VOLUMES IN THE NORDIC RETAIL MONOPOLIES

% change compared to previous year	Q2 20	Q2 19	H1 20	H1 19	2019
Nordics, total sales volumes	**+20.9**	**+2.4**	**+15.6**	**-1.3**	**+0.1**
Spirits	+23.3	+4.8	+15.7	0.0	+1.0
Wine	+20.6	+2.0	+15.6	-1.5	+0.0
Finland, total sales volumes	**+21.5**	**+0.8**	**+14.6**	**-2.9**	**-2.6**
Spirits	+16.3	+0.3	+10.1	-2.4	-2.0
Wine	+23.3	+1.0	+16.4	-3.1	-2.8
Sweden, total sales volumes	**+12.2**	**+2.3**	**+10.0**	**-0.7**	**+1.0**
Spirits	+24.1	+7.9	+17.4	+2.3	+3.9
Wine	+11.1	+1.8	+9.3	-1.0	+0.7
Norway, total sales volumes	**+45.7**	**+4.0**	**+32.7**	**-1.6**	**+0.4**
Spirits	+34.4	+7.7	+23.1	+0.3	+1.6
Wine	+47.4	+3.5	+34.2	-1.9	+0.2

Source: Based on sales volumes by litre published by Alko, Systembolaget, Vinmonopolet.

Finland

In January-June, the Finnish retail monopoly's spirits and wine sales volumes were up by 14.6% compared with the same period last year.

Spirits category grew by 10.1%. The high growth categories were whiskies, rum and gin. The wine category grew by 16.4%. The large red and white wine categories grew by 17.3% and 19.0% respectively. Rosé wines grew by 46.5%.

Sweden

In January-June, the Swedish retail monopoly's spirits and wine volumes were up by 10.0% compared with the same period last year.

The spirits category grew by 17.4%. The high growth categories were whiskies, gin, rum and bitters. The wine category grew by 9.3%. The large red and white wine categories grew by 7.0% and 9.8% respectively. Rosé wines grew by 22.7%.

Norway

In January-June, the Norwegian retail monopoly's spirits and wine volumes were up by 32.7% compared with the same period last year.

The spirits category grew by 23.1%. The high growth categories were aquavit, gin, rum and whiskies. The wine category grew by 34.2% with all categories show exceptional growth rates.

Business Review

Finland & Exports

The Finland & Exports segment comprises the import, sale and marketing of wines, spirits and other beverages in Finland and the Baltics, as well as exports and travel retail.

	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Net sales, EUR million	29.2	34.7	-15.9	53.0	59.6	-11.2	128.6
Comparable EBITDA, EUR million	5.5	5.3	4.4	8.3	8.2	0.6	20.6
Comparable EBITDA, % of net sales	18.9	15.2		15.6	13.8		16.0
Average number of personnel	91	90		90	93		89

EUR million	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Spirits	15.7	19.2	-18.2	30.5	34.6	-11.8	75.1
Wine	13.1	15.2	-13.7	21.9	24.6	-11.0	52.5
Other beverages	0.4	0.3	18.5	0.6	0.4	50.0	1.0
Total	**29.2**	**34.7**	**-15.9**	**53.0**	**59.6**	**-11.2**	**128.6**

Net sales

In January-June, net sales in the Finland & Exports segment were EUR 53.0 (59.6) million, down by 11.2% from the previous year. The decline is due to the sales drop in travel retail, exports and on-trade following COVID-19 restrictions issued in March. Altia's net sales in the monopoly channel grew as consumers shifted purchases to the monopoly. Net sales growth in the monopoly was driven mainly by the double-digit net sales growth in spirits and bag-in-box wines. Partner portfolio changes in Q2 impacted wine sales slightly negatively. Net sales in the grocery trade channel grew slightly. In the Baltics, domestic grocery trade continued a stable positive development.

In the second quarter net sales were EUR 29.2 (34.7) million, down by 15.9% from the previous year. The gradual lifting of COVID-19 restrictions in Finland started in June, but the recovery of the affected sales channels was slow. In Q2, partner changes in the wine portfolio has impacted wine sales negatively. In addition, the release of a tax provision (EUR 0.5 million) in Q2 2019 impacts year-on-year comparison negatively.

Comparable EBITDA

In January-June, comparable EBITDA was EUR 8.3 (8.2) million, 15.6% (13.8%) of net sales. The positive channel mix, revenue management and the implemented cost savings measures have offset the negative impact of lost volumes in travel retail, exports and on-trade.

In the second quarter, comparable EBITDA was EUR 5.5 (5.3) million, 18.9% (15.2%) of net sales. The release of a tax provision (EUR 0.5 million) in Q2 2019 impacts year-on-year comparison negatively.

Business events

Altia has partnered with Underberg to enter the German market with Koskenkorva Vodka and O.P. Anderson Aquavit. The long-term partnership includes the sales, marketing and distribution of Koskenkorva Vodka Original and O.P. Anderson Original Aquavit.

Altia has launched several new innovations in Finland during the period. The Koskenkorva Vodka brand was extended with Koskenkorva 7 Botanicals, Koskenkorva Lemon and Koskenkorva Mojito. Further, Koskenkorva Green, the first organic ready-to-drink product in the Koskenkorva RTD offering was launched. Leijona brand was extended with new mild spirits such as Leijona Bahama Mango Mojito and Leijona Yuzu Raspberry, and a shot with a smoky flavour, Leijona Savu.

Thanks to the persistent long-term work in search engine and campaign optimisation the traffic to Viinimaa.fi continued growing: +27 % during the first half of 2020 compared to the previous year. In June, we experienced an all time record number, over 179 000 visits in a month.

Scandinavia

The Scandinavia segment comprises the import, sale and marketing of wines, spirits and other beverages in Sweden, Norway and Denmark.

	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Net sales, EUR million	28.1	29.0	-3.0	50.1	50.7	-1.1	120.7
Comparable EBITDA, EUR million	2.9	2.0	45.9	2.8	1.7	67.8	12.1
Comparable EBITDA, % of net sales	10.4	6.9		5.5	3.3		10.0
Average number of personnel	74	74		72	80		74

EUR million	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Spirits	13.1	12.4	5.3	22.7	21.7	4.6	46.2
Wine	14.9	15.7	-5.1	26.9	27.7	-2.9	72.4
Other beverages	0.2	0.9	-82.7	0.5	1.3	-61.5	2.1
Total	**28.1**	**29.0**	**-3.0**	**50.1**	**50.7**	**-1.1**	**120.7**

Net sales

In January-June, the Scandinavia segment's net sales were EUR 50.1 (50.7) million, down by 1.1% from the previous year due to the business model change in Denmark (Q2 2019). In constant currencies, net sales grew by 2.5%. Altia's net sales in the monopoly channels grew as consumers shifted purchases to the monopolies. In Sweden, the double-digit sales growth in spirits was supported by solid sales and market share growth in the strategically important gin, rum and liqueur categories. In Norway, net sales growth was strong across all categories and market share development was positive. COVID-19 restrictions have impacted on-trade negatively. Partner portfolio changes in Q2 impacted wine sales slightly negatively. The net sales decline in Other beverages is due to partner portfolio changes last year.

In the second quarter net sales were EUR 28.1 (29.0) million, down by 3.0% from the previous year due to the business model change in Denmark (Q2 2019). In constant currencies, net sales decreased by 0.6%. The gradual lifting of COVID-19 restrictions in the Norwegian on-trade started in May, but the recovery was slow. In Q2, partner changes in the wine portfolio has impacted wine sales negatively.

Comparable EBITDA

In January-June, comparable EBITDA was EUR 2.8 (1.7) million, 5.5% (3.3%) of net sales. Profitability improvement is related to growth in monopoly sales, revenue management and implemented cost savings measures. Comparable EBITDA was impacted negatively by the development of the exchange rates, especially the Norwegian krona.

In the second quarter, comparable EBITDA was EUR 2.9 (2.0) million, 10.4% (6.9%) of net sales.

Business events

Altia has made several product launches in Sweden and Norway during the period. The O.P. Anderson brand was extended with an organic dry gin, which was awarded the Master medal in July by Spirits Business in the category London Dry Gin. Other successful gin launches included Explorer Pink Gin and Hernö Pink Gin. Koskenkorva liqueurs such as Koskenkorva Ginger and Koskenkorva Lemon were introduced. Xanté brand was extended with Xanté Rum & Pear and Xanté Coconut Cream & Pear. The iconic "Grönstedts Blå Punsch" (arrack liqueur) was relaunched in Sweden.

The number of visits to folk o folk website have dramatically increased during the period peeking at 560 000 sessions in one single month. It is a result of successful search engine optimisation and increased presence in social media.

In June, Altia launched a new site, folkofolkki.se, that addresses consumers in Sweden with a Finnish background. The site promotes Altia's Finnish assortment including products that have not earlier been available in Sweden.

Altia Industrial

The Altia Industrial segment comprises Koskenkorva plant operations, starch, feed component and technical ethanol businesses, as well as contract manufacturing services. It also includes supply chain operations, i.e. production operations in different countries, customer service and logistics.

	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Net sales, EUR million	23.8	27.5	-13.7	46.1	54.7	-15.6	110.2
Comparable EBITDA, EUR million	4.9	2.3	110.8	7.1	3.3	113.4	11.4
Comparable EBITDA, % of net sales	20.7	8.5		15.4	6.1		10.4
Average number of personnel	414	446		408	431		426

Net sales

In January-June, Altia Industrial's net sales were EUR 46.1 (54.7) million, down by 15.6% from the previous year. The decline is mainly due to lower contract manufacturing volumes and the normalised barley price. Following COVID-19, the demand for technical ethanol has been strong and the volumes have remained at a higher level compared to last year. Starch volumes were below last year's level due to weaker demand in the paper industry while feed component volumes were on last year's level.

In the second quarter net sales were EUR 23.8 (27.5) million, down by 13.7% from the previous year.

Comparable EBITDA

In January-June, comparable EBITDA was EUR 7.1 (3.3) million, 15.4% (6.1%) of net sales. The improvement in profitability is related to the normalised barley price as well as the higher volumes and increased overall market prices of ethanol.

In the second quarter, comparable EBITDA was EUR 4.9 (2.3) million, 20.7% (8.5%) of net sales.

Production volumes and key projects

During the first half of the year, the Rajamäki alcoholic beverage plant in Finland produced 24.5 (31.1) million litres of spirits and wine.

The Koskenkorva Plant Distillery has been running at full capacity during the period and 107.4 (105.9) million kilos grain was used at the plant. Grain spirits production was 11.6 (11.1) million kilos including technical ethanols, starch production was 31.9 (33.2) million kilos, and feed component production was 33.1 (32.9) million kilos.

During the period, production process investments at Rajamäki and a number of smaller improvement and maintenance investments at the Rajamäki and Koskenkorva Distillery plants were carried out.

Key events during January–June 2020

The key events during the period were:

- 29 January: Proposals by Altia's Shareholders' Nomination Board to the Annual General Meeting 2020
- 13 February: Altia's Financial Statements Bulletin 2019: Solid Q4 supported profitability improvement
- 13 February: Notice of the Annual General Meeting 25 March 2020
- 13 February: New earning period in the share-based long-term incentive scheme for the management and key employees of Altia
- 2 March: Annual Report 2019 and Remuneration Policy published
- 17 March: Altia delivers large amounts of ethanol to be used as key ingredient in hand sanitisers - deliveries enough to create up to 200 000 sanitiser bottles per day
- 18 March: Altia postpones its Annual General Meeting 2020
- 30 March: Altia adjusts its operations and prepares for changes in the amount of work
- 6 April: Altia partners with Underberg to enter the German market with Koskenkorva Vodka and O.P. Anderson Aquavit
- 29 April: Q1 2020 Business Review: Profitability improved in a solid Q1, uncertainty for the rest of the year, guidance is suspended
- 4 May: Change in Altia's Executive Management Team
- 13 May: Notice of the Annual General Meeting
- 13 May: Altia's Board of Directors amends its previous dividend proposal to the Annual General Meeting
- 4 June: Decisions taken by Altia's Annual General Meeting 2020 and Altia's Board of Directors

Altia's share

Altia's shares are listed on the Nasdaq Helsinki. All shares carry one vote and have equal voting rights. The trading code of the shares is "ALTIA", and the ISIN code is FI4000292438.

Issued shares and share capital

At the end of the reporting period, Altia Plc's share capital amounted to EUR 60 480 378.36 and the number of issued shares was 36 140 485.

Shareholders and trading

At the end of June 2020, Altia had 20 209 shareholders. During January-June, the highest share price was EUR 8.82 and the lowest price was EUR 7.01. The closing price of Altia's share on 30 June 2020 was EUR 7.98, and the market capitalisation was approximately EUR 288 million.

OWNERSHIP STRUCTURE BY SECTOR (AT THE END OF THE PERIOD)

Sector	Number of shares	% of shares
Public sector	15 698 309	43.4
Financial and insurance corporations	9 880 699	27.3
Households	7 802 346	21.6
Non-financial corporations	1 853 389	5.1
Non-profit institutions	543 589	1.5
Rest of the world	362 153	1.0
Total	**36 140 485**	**100.0**

Source: Euroclear Finland

10 LARGEST SHAREHOLDERS (AT THE END OF THE PERIOD)

	Shareholder	Number of shares	% of shares
1	Valtion Kehitysyhtiö Vake Oy*	13 097 481	36.2
2	Ilmarinen Mutual Pension Insurance Company	1 113 300	3.1
3	Varma Mutual Pension Insurance Company	1 050 000	2.9
4	Veritas Pension Insurance Company Ltd.	420 000	1.2
5	WestStar Oy	207 868	0.6
6	Säästöpankki Pienyhtiöt	156 233	0.4
7	Säästöpankki Kotimaa	150 000	0.4
8	Petter and Margit Forsström´s Foundation	140 200	0.4
9	Erikoissijoitusrahasto Visio Allocator	140 000	0.4
10	Mandatum Life Insurance Company Limited	137 798	0.4
	Total	**16 612 880**	**46.0**
	Nominee-registered shares	*9 053 965*	*25.1*

**) State's Business Development Company*
Source: Euroclear Finland

Governance

Annual General Meeting 2020

Altia's Annual General Meeting was held in Helsinki on 4 June 2020. The meeting adopted the financial statements and discharged the members of the Board of Directors and the CEO from liability for the financial year 2019.

Dividend payment

The meeting approved the proposal by the Board of Directors to pay a dividend of EUR 0.21 per share. The dividend was paid on 15 June 2020.

Further, the AGM authorised the Board of Directors to resolve on the payment of dividend so that the amount of dividend to be paid based on the authorisation shall not exceed EUR 0.21 per share. The authorisation is valid until the end of 2020.

Unless the Board of Directors decides otherwise for a justified reason, the authorisation will be used to pay dividend one time during the period of validity of the authorisation. The Board of Directors will make a separate resolution on the possible payment of dividend no later than in the fourth quarter of 2020. The company shall make a separate announcement of such resolution and confirm the record and payment dates in such announcement.

Adoption of the Remuneration Policy for governing bodies

The Annual General Meeting adopted the Remuneration Policy for the governing bodies.

Remuneration of the members of the Board of Directors

The meeting decided based on the proposal by the Shareholders' Nomination Board that the remuneration to the members of the Board of Directors during the next term consists of a monthly term of office fee as follows:

- EUR 4 000 per month, Chairman
- EUR 2 500 per month, Vice Chairman
- EUR 2 000 per month, member

In addition to the monthly fee, the members of the Board of Directors receive a meeting fee for the Board of Directors and Board Committee meetings of EUR 600 per meeting for Board members residing in Finland and EUR 1 200 per meeting for Board members residing abroad. Travel expenses are reimbursed in accordance with the company's travel policy.

Composition of the Board of Directors

The meeting approved the number of members of the Board of Directors to be seven. The meeting re-elected Sanna Suvanto-Harsaae as Chairman of the Board and Tiina Lencioni, Jukka Ohtola, Anette Rosengren and Torsten Steenholt as members of the Board. Jyrki Mäki-Kala and Jukka Leinonen were elected as new members. Jyrki Mäki-Kala was further elected as Vice Chairman of the Board.

The term for the members of the Board of Directors lasts until the end of the next Annual General Meeting.

Auditor

In accordance with the recommendation by the Audit Committee, the Annual General Meeting re-elected PricewaterhouseCoopers Oy as the company's auditor for a term that ends at the close of the next Annual General Meeting. PricewaterhouseCoopers Oy has informed the company that Authorized Public Accountant Ylva Eriksson continues as the auditor in charge. The meeting decided that the auditor's fees be paid against an invoice approved by the company.

Amendment of the Articles of Association

The AGM approved the proposal by the Board of Directors to amend the first sentence of Article 4 of the company's Articles of Association to set the maximum number of members of the Board of Directors of the company at eight members instead of the current seven members, as follows:

"The company's Board of Directors shall comprise a minimum of three (3) and a maximum of eight (8) members."

Article 4 of the Articles of Association remains otherwise unchanged.

Further, the AGM approved that Article 11 of the company's Articles of Association is amended so that the Annual General Meeting shall decide, in addition to the items that currently appear from Article 11, also on the adoption of the remuneration policy when necessary, and on the adoption of the remuneration report. Article 11 of the Articles of Association remains otherwise unchanged.

Authorisation of the Board of Directors to resolve on the repurchase of the company's own shares

The AGM approved the Board's proposal to authorise the Board of Directors to resolve on the repurchase of the company's own shares. The number of shares to be repurchased by virtue of the authorisation shall not exceed 360,000 own shares in the company, which corresponds to approximately one percent of all the company's shares at the time of the proposal, subject to the provisions of the Finnish Companies Act on the maximum amount of shares owned by the company or its subsidiaries.

The shares may be repurchased in one or several instalments and either through a tender offer made to all shareholders on equal terms or in another proportion than that of the existing shareholdings of the shareholders in the company in public trading at the prevailing market price. The shares would be repurchased with funds from the company's unrestricted shareholders' equity.

The shares could be repurchased for the purpose of implementing the company's share-based incentive plans or share savings plans. The Board of Directors would be authorized to resolve on all other terms and conditions regarding the repurchase of the company's own shares.

The authorisation is valid until the close of the next Annual General Meeting, however, no longer than until 30 June 2021.

Amendment of the charter of the Shareholders' Nomination Board

The AGM approved the proposal by the Shareholders' Nomination Board to amend section 2 of the charter of the Shareholders' Nomination Board so that the Value Day is the first banking day of June each year instead of the current Value Day, which is the first banking day of September.

Organisational meeting of the Board of Directors

Altia's Board of Directors held its organisational meeting after the Annual General Meeting and elected members of the Audit and Human Resources Committees as follows:

- **Audit Committee**: Jyrki Mäki-Kala (Chairman), Tiina Lencioni, Torsten Steenholt and Sanna Suvanto-Harsaae
- **Human Resources Committee**: Sanna Suvanto-Harsaae (Chairman), Jukka Leinonen and Jukka Ohtola

The Board of Directors has assessed that all members of the Board of Directors are independent of the company. Furthermore, all members of the Board of Directors, with the exception of Jukka Ohtola, are independent of the company's significant shareholders. Jukka Ohtola is a member of the Board of Directors of Valtion Kehitysyhtiö Vake Oy and holds an office in the Ownership Steering Department of the Finnish Prime Minister's Office and is therefore not independent of a significant shareholder of the company.

Changes in Altia's Executive Management Team

On 4 May, it was announced that Altia's Chief Financial Officer (CFO) and member of the Executive Management Team, Niklas Nylander has resigned from his position. Niklas Nylander will continue in his position and as a member of the Executive Management Team until further notice, but no longer than until the end of October 2020. Recruitment for a new CFO is ongoing.

Group structure

In order to simplify the Group structure, Altia Oyj's Finnish subsidiaries excluding Oy Wennerco Ab were merged to Altia Oyj and all Swedish subsidiaries to Altia Sweden AB as of 30 April 2020.

Personnel

During January-June 2020, Altia Group employed on average of 651 (701) persons. At the end of June, Altia Group employed 663 (711) persons, of whom 411 (449) were employed in Finland, 110 (114) in Sweden, 4 (4) in Denmark, 22 (28) in Norway, 33 (31) in Latvia, 58 (61) in Estonia, and 25 (24) in France.

The temporary lay-offs that were implemented in Finland, Sweden and Norway affected approximately 180 persons.

Sustainability

As of February 2020, sustainability has been incorporated into the core of Altia's strategy, together with Altia's purpose, Let's Drink Better, which aims for a more sustainable drinking culture. For Altia, sustainability is both a strategic priority and a key success factor in business. Koskenkorva Distillery and it's award-winning circular economy case are found at the heart of Altia's sustainabilty thinking. Altia's sustainaiblity work in all fronts aim to achieve the position of the most sustainable drinks company in the Nordics.

Altia's new Sustainability Roadmap in implementation

Altia has been guiding it's responsibilty efforts according to the new Sustainability Roadmap from beginning of 2020. The key target Altia is aiming to is carbon neutrality of own production already in 2025.

The new Sustainabilty Roadmap sets ambitious, numerical target to all chosen focal areas:

- Our Distillery – Carbon neutral production
- Our Drink – 100% recyclable packaging
- Our Society – 10% of portfolio low or non-alcoholic drinks
- Our People – Zero absence due to injuries

Altia awarded gold medal in Ecovadis sustainability rating

In April, Altia was awarded Gold Medal in EcoVadis Corporate Social Responsibility rating. Altia got 71/100 points and scored higher than 98% of all the companies rated. Over 55 000 companies have been rated by EcoVadis across 198 purchasing categories and 150 countries. Altia strengths included its advanced management system in environmental topics. Key development feedback was to develop even further the formalised policies in sustainable procurement.

Occupational safety

Occupational safety is one of the focus areas of Altia's Sustainability Roadmap and the tool to reach the goal of zero absence due to injuries.

The injury frequency has decreased during the reporting period. Safety observations have been on the same good level as in 2019 and have not increased. Altia received level 2 rating to it's operations in Finland from Zero Accidents Forum, which is a network of Finnish companies coordinated by The Finnish Institute for Occupational Health. Altia has been improving its rating yearly and the aim is level 1.

Altia has started a project called Human Factor® at the Rajamäki production plant. The aim is to include human factors as a part of investigating near miss situations and accidents. The project also aims to improve and develop safety culture. The project started in 2019 and will continue until the end of 2020.

During the reporting period Altia has introduced and implemented minimum requirements for the most important safety areas at all operational sites. The requirements cover: personal protective equipment, external craftsmen (subcontractors), chemical handling and working at height.

SUSTAINABILITY KEY FIGURES

The progress of the key figures during the reporting period has been according to the targets.

	H1 20	H1 19	2019
Sickness absences, %	3.8	3.8	3.7
Total Registered Injury Frequency, TRIF (H1 20 exluding commuting)	12	22	14
Lost Time Injury Frequency, LTIF (H1 20 excluding commuting)	4	11	9

Both TRIF and LTIF are reported without commuting as of 2020. H1 2019 data includes commuting.

	H1 20		H1 19		2019	
	Kosken-korva	Rajamäki and Tabasalu	Kosken-korva	Rajamäki and Tabasalu	Kosken-korva	Rajamäki and Tabasalu
Energy efficiency (MWh/m3 of product or tonne of barley)	0.78	0.32	0.80	0.31	0.63	0.27
Water efficiency (m3/m3 of product or tonne of barley) (1)	2.18	1.96	1.80	1.70	1.49	1.65
Quality of waste water (kg COD/m3 of product or tonne barley) (2)	3.93	2.10	3.66	2.48	3.37	2.29

(1) With regards to Rajamäki, the indicator includes water consumption at the alcohol beverage plant. The water consumption indicator for the Rajamäki plant of the Industrial Products Unit is not material to the operations. (2) The waste water quality indicator is not monitored at the Tabasalu plant.

Short-term risks and uncertainties

The most significant uncertainties in the company's operations relate to the overall economic development and its impacts on consumption, as well as the effects of alcohol taxes and legislation on consumer behaviour. Unexpected and unforeseen disruptions in production and deliveries form the major short-term risks related to operations, as well as sudden and significant changes in prices of raw materials, especially related to barley.

Altia Plc's Board of Directors has confirmed the Group Risk Management Policy. Risk management is aimed at supporting the implementation of Altia Group's strategy, the identification of risks and methods for reducing the probability and impacts of risks, as well as ensuring business continuity. Risks may arise from internal or external events.

Outlook for 2020

Market outlook

The development of the Group's business operations and profitability are affected by the competitive environment, the overall economic outlook and changes in alcohol taxation and regulation. Uncertainty related to changes in consumer buying behaviour and consumer demand continues. In addition, overall fluctuations of direct product costs affect the Group's profitability.

COVID-19 update: Uncertainty in the operating environment is high. The recovery of the market depends on the level and extent of governmental restrictions and recommendations on travelling, movement and social distancing. The pace of recovery is difficult to estimate and it is affected by changes in consumer behaviour and is expected to vary across sales channels.

Seasonality

There are substantial seasonal fluctuations in the consumption of alcoholic beverages impacting the net sales and cash flow of Altia. The company typically generates large amounts of its revenue and cash flow during the fourth quarter of the year, whereas the first quarter of the year is significantly lower. In addition, excise taxes related to the high season at the end of the year are paid in January, resulting in large cash outflows at the beginning of the year.

Guidance

Guidance for 2020 remains suspended due the prolonged uncertainties related to COVID-19. New guidance will be provided if the impacts of COVID-19 on the operating environment and business conditions can be assessed in a reliable manner.

The restrictions and instructions from governments and health authorities have a significant impact on Altia's operating environment. The visibility for the rest of the year continues to be poor and forecasting is difficult. Uncertainty in the economy remains at a high level and the risk of an economic slowdown is high.

The recovery of the consumer beverage sales depends on the level and extent of governmental restrictions and recommendations on travelling, movement and social distancing. The pace of recovery is difficult to estimate and it is affected by changes in consumer behaviour and is expected to vary across sales channels: on-trade channels could be expected to recover faster than travel retail.

Previous guidance published on 13 February 2020:

The continued decline in market volumes in Finland puts pressure on profitability growth. The uncertainties in global travelling impacts border trade and travel retail regionally and in Asia. Guidance assumes a normal barley price level following the 2020 harvest. Industrial services are impacted by phasing of volumes between the years.

The comparable EBITDA is expected to be at the same level as or higher than in 2019 (2019: EUR 44.8 million).

Financial calendar for 2020

Altia will publish the Business Review for January-September 2020 on 6 November.

Events after the period

On 1 July, the composition of Altia's Shareholder's Nomination Board was announced. Altia's three largest registered shareholders (shareholder register maintained by Euroclear Finland Ltd as per 1 June 2020) have nominated the following representatives to the Shareholders' Nomination Board:

- Pekka Hurtola, the Ownership Steering Department in the Prime Minister's Office
- Annika Ekman, Ilmarinen Mutual Pension Insurance Company
- Hanna Kaskela, Varma Mutual Pension Insurance Company

In its organising meeting on 1 July 2020 the Nomination Board elected Pekka Hurtola as its Chairman. The Chairman of Altia's Board of Directors, Sanna Suvanto-Harsaae acts as an expert member in the Nomination Board.

Helsinki, 18 August 2020
Altia Plc
Board of Directors

CONSOLIDATED INCOME STATEMENT

EUR million	Q2 20	Q2 19	H1 20	H1 19	2019
NET SALES	81.0	91.2	149.3	165.0	359.6
Other operating income	1.4	2.0	2.9	3.9	7.6
Materials and services	-45.4	-54.4	-84.1	-99.4	-213.1
Employee benefit expenses	-11.5	-11.6	-23.0	-23.1	-45.9
Other operating expenses	-13.0	-18.0	-27.1	-32.9	-65.0
Depreciation, amortisation and impairment	-4.4	-4.5	-8.8	-9.0	-17.9
OPERATING RESULT	**8.2**	**4.8**	**9.2**	**4.5**	**25.1**
Finance income	-0.1	1.0	0.2	2.5	3.5
Finance expenses	-0.6	-1.4	-1.2	-3.5	-5.7
Share of profit in associates and joint ventures and income from interests in joint operations	0.1	0.2	1.1	1.2	1.6
RESULT BEFORE TAXES	**7.6**	**4.5**	**9.3**	**4.7**	**24.6**
Income tax expense	-1.5	-0.9	-1.9	-0.7	-6.2
RESULT FOR THE PERIOD	**6.1**	**3.6**	**7.5**	**4.0**	**18.4**
Result for the period attributable to:					
Owners of the parent	6.1	3.6	7.5	4.0	18.4
Earnings per share for the result attributable to owners of the parent, EUR					
Basic and diluted	0.17	0.10	0.21	0.11	0.51

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Q2 20	Q2 19	H1 20	H1 19	2019
Result for the period	6.1	3.6	7.5	4.0	18.4
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to profit or loss					
Remeasurements of post-employment benefit obligations	-	-	-	-	-0.2
Related income tax	-	-	-	-	0.0
Total	-	-	-	-	-0.2
Items that may be reclassified to profit or loss					
Cash flow hedges	-0.2	-0.4	-0.0	-0.8	-1.3
Translation differences	3.6	-1.3	-1.7	-2.1	-2.4
Income tax related to these items	0.0	0.1	0.0	0.2	0.3
Total	3.5	-1.7	-1.7	-2.8	-3.5
Other comprehensive income for the period, net of tax	3.5	-1.7	-1.7	-2.8	-3.6
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**9.6**	**2.0**	**5.8**	**1.2**	**14.8**
Total comprehensive income attributable to:					
Owners of the parent	9.6	2.0	5.8	1.2	14.8

CONSOLIDATED BALANCE SHEET

EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
ASSETS			
Non-current assets			
Goodwill	80.0	79.8	80.1
Other intangible assets	22.5	27.1	25.2
Property, plant and equipment	59.1	62.5	60.9
Right-of-use assets	8.9	11.5	10.4
Investments in associates and joint ventures and interests in joint operations	8.9	8.2	8.8
Financial assets at fair value through other comprehensive income	1.4	1.4	1.4
Deferred tax assets	1.5	1.4	0.9
Total non-current assets	**182.3**	**192.1**	**187.7**
Current assets			
Inventories	101.1	111.6	92.0
Contract assets	–	0.1	0.2
Trade and other receivables	41.5	51.9	54.4
Current tax assets	2.7	4.5	1.6
Cash and cash equivalents	101.2	27.7	64.2
Total current assets	**246.6**	**195.7**	**212.4**
TOTAL ASSETS	**428.9**	**387.7**	**400.2**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	60.5	60.5	60.5
Invested unrestricted equity fund	1.2	1.2	1.2
Fair value reserve	0.6	0.6	0.6
Legal reserve	0.1	0.1	0.1
Hedge reserve	-1.0	-0.7	-1.0
Translation differences	-23.7	-21.7	-22.1
Retained earnings	111.9	97.5	111.9
Total equity	**149.5**	**137.6**	**151.2**
Non-current liabilities			
Deferred tax liabilities	16.4	16.7	16.7
Borrowings	70.4	76.8	76.1
Lease liabilities	5.7	8.2	7.1
Employee benefit obligations	1.3	1.3	1.4
Total non-current liabilities	**93.7**	**103.0**	**101.3**
Current liabilities			
Borrowings	51.5	20.5	6.5
Lease liabilities	3.5	3.4	3.4
Trade and other payables	127.9	122.4	134.7
Contract liabilities	–	0.2	0.5
Current tax liabilities	2.8	0.6	2.5
Total current liabilities	**185.7**	**147.1**	**147.6**
Total liabilities	**279.4**	**250.1**	**249.0**
TOTAL EQUITY AND LIABILITIES	**428.9**	**387.7**	**400.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the parent EUR million	Share capital	Invested unrestricted equity fund	Fair value reserve	Legal reserve	Hedge reserve	Translation differences	Retained earnings	Total equity
Equity at 1 January 2019	60.5	1.2	0.6	–	0.0	–19.6	107.3	150.1
Total comprehensive income								
Result for the period	–	–	–	–	–	–	4.0	4.0
Other comprehensive income (net of tax)								
Cash flow hedges	–	–	–	–	–0.7	–	–	–0.7
Translation differences	–	–	–	–	–	–2.1	0.0	–2.1
Total comprehensive income for the period	–	–	–	–	–0.7	–2.1	4.0	1.2
Transactions with owners								
Dividend distribution	–	–	–	–	–	–	–13.7	–13.7
Share based payments	–	–	–	–	–	–	0.1	0.1
Total transactions with owners	–	–	–	–	–	–	–13.7	–13.7
Transfer to reserve	–	–	–	0.1	–	–	–0.1	0.0
Equity at 30 June 2019	60.5	1.2	0.6	0.1	–0.7	–21.7	97.5	137.6
Equity at 1 January 2020	60.5	1.2	0.6	0.1	–1.0	–22.1	111.9	151.2
Total comprehensive income								
Result for the period	–	–	–	–	–	–	7.5	7.5
Other comprehensive income (net of tax)								
Cash flow hedges	–	–	–	–	–0.0	–	–	–0.0
Translation differences	–	–	–	–	–	–1.7	–0.0	–1.7
Total comprehensive income for the period	–	–	–	–	0.0	–1.7	7.5	5.8
Transactions with owners								
Dividend distribution	–	–	–	–	–	–	–7.6	–7.6
Share based payments	–	–	–	–	–	–	0.1	0.1
Total transaction with owners	–	–	–	–	–	–	–7.4	–7.4
Equity at 30 June 2020	60.5	1.2	0.6	0.1	–1.0	–23.7	111.9	149.5

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Q2 20	Q2 19	H1 20	H1 19	2019
CASH FLOW FROM OPERATING ACTIVITIES					
Result before taxes	7.6	4.5	9.3	4.7	24.6
Adjustments					
Depreciation, amortisation and impairment	4.4	4.5	8.8	9.0	17.9
Share of profit in associates and joint ventures and income from interests in joint operations	-0.1	-0.2	-1.1	-1.2	-1.6
Net gain on sale of non-current assets	-	-0.0	-	-0.0	-0.0
Finance income and costs	0.6	0.5	1.0	1.1	2.2
Other adjustments	0.2	-0.4	0.0	-0.4	-0.8
	5.1	4.3	8.7	8.3	17.7
Change in working capital					
Change in inventories, increase (-) / decrease (+)	0.9	-2.9	-9.4	-12.2	7.4
Change in contract assets, trade and other receivables, increase (-) / decrease (+)	3.9	5.8	11.8	8.8	5.3
Change in contract liabilities, trade and other payables, increase (+) / decrease (-)	10.2	15.5	-5.5	-8.7	3.8
Change in working capital	14.9	18.4	-3.0	-12.1	16.5
Interest paid	-0.4	-0.3	-0.8	-0.8	-1.6
Interest received	0.0	0.1	0.1	0.1	0.2
Other finance income and expenses paid	-0.1	-0.6	-0.4	-1.3	-1.7
Income taxes paid	-1.5	-1.6	-3.6	-2.9	-3.1
Financial items and taxes	-2.0	-2.5	-4.7	-4.9	-6.1
NET CASH FLOW FROM OPERATING ACTIVITIES	**25.7**	**24.7**	**10.3**	**-4.0**	**52.6**
CASH FLOW FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment and intangible assets	-1.5	-2.1	-2.5	-3.2	-6.8
Proceeds from sale of property, plant and equipment and intangible assets	0.0	0.0	0.1	0.0	0.1
Investments in associated companies and joint ventures	-	-	-	-	-0.2
Interest received from investments in joint operations	-	-	0.9	0.9	0.9
Dividends received	-	-	0.2	-	-
NET CASH FLOW FROM INVESTING ACTIVITIES	**-1.5**	**-2.1**	**-1.3**	**-2.2**	**-6.0**
CASH FLOW FROM FINANCING ACTIVITIES					
Changes in commercial paper program	-10.0	4.0	45.0	14.0	-
Repayment of borrowings	-	-	-5.7	-5.8	-6.5
Repayment of lease liabilities	-0.9	-0.9	-1.7	-1.9	-3.7
Dividends paid and other distributions of profits	-7.6	-13.7	-7.6	-13.7	-13.7
NET CASH FLOW FROM FINANCING ACTIVITIES	**-18.4**	**-10.6**	**29.9**	**-7.4**	**-23.9**
CHANGE IN CASH AND CASH EQUIVALENTS	5.8	12.0	38.9	-13.6	22.7
Cash and cash equivalents at the beginning of the period	92.6	16.3	64.2	42.0	42.0
Translation differences on cash and cash equivalents	2.8	-0.6	-1.9	-0.8	-0.5
Change in cash and cash equivalents	5.8	12.0	38.9	-13.6	22.7
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	101.2	27.7	101.2	27.7	64.2

ALTIA

Accounting principles

This half-year report has been prepared in accordance with the International Financial Reporting Standards (IFRS) and IAS 34 Interim Financial Reporting as approved by the EU. This half-year report should be read together with Altia's Financial Statements 2019.

All the figures have been rounded and consequently the sum of individual figures can deviate from the presented aggregate figure.

The Group adopts the guidance on alternative performance measures issued by the European Securities and Market Authority (ESMA). In addition to key ratios, The Group releases other commonly used alternative key ratios mainly derived from the statement of comprehensive income and consolidated balance sheet. In addition to IFRS and alternative key ratios, the adjusted alternative key ratios are used by adding or deducting items affecting comparability.

Seasonality

There are substantial seasonal fluctuations in the consumption of alcoholic beverages impacting the net sales and cash flow of Altia. The company typically generates large amounts of its revenue and cash flow during the fourth quarter of the year, whereas the first quarter of the year is significantly lower. In addition, excise taxes related to the high season at the end of the year are paid in January, resulting in large cash outflows at the beginning of the year.

Impacts of COVID-19 on Group financial position

- The strict focus on net working capital management will continue in the upcoming quarters together with other liquidity securing actions.
- Due to the COVID-19 uncertainties, Altia has assessed the impact of the pandemic on its financial position and has considered the values of assets and liabilities that include critical accounting estimates and require management judgement. Based on this assessment, Altia has not identified any indication of goodwill impairment.
- The credit risk of trade receivables and the amount of bad debt provision has been analysed at the end of reporting period with the conclusion being there is sufficient provision in place.

Segment information

NET SALES BY SEGMENT

EUR million	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18	Q1 18
Finland & Exports	29.2	23.8	37.8	31.2	34.7	25.0	39.5	31.8	35.4	27.1
Scandinavia	28.1	22.0	44.5	25.6	29.0	21.7	42.8	25.0	27.4	22.5
Altia Industrial	23.8	22.4	27.8	27.7	27.5	27.1	28.6	28.9	24.2	24.0
Total	**81.0**	**68.2**	**110.1**	**84.5**	**91.2**	**73.8**	**110.9**	**85.7**	**87.1**	**73.5**

EUR million	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Finland & Exports							
Net sales total	29.4	34.8	-15.5	53.3	59.8	-10.9	129.0
Net sales, internal	-0.2	-0.1	100.0	-0.3	-0.2	50.0	-0.4
Net sales, external	**29.2**	**34.7**	**-15.9**	**53.0**	**59.6**	**-11.2**	**128.6**
Scandinavia							
Net sales total	28.2	29.2	-3.4	50.3	51.0	-1.4	121.4
Net sales, internal	-0.1	-0.2	-50.0	-0.2	-0.3	-33.3	-0.7
Net sales, external	**28.1**	**29.0**	**-3.0**	**50.1**	**50.7**	**-1.1**	**120.7**
Altia Industrial							
Net sales total	34.2	38.0	-10.0	64.2	72.2	-11.2	149.7
Net sales, internal	-10.4	-10.5	-1.0	-18.1	-17.5	3.4	-39.4
Net sales, external	**23.8**	**27.5**	**-13.7**	**46.1**	**54.7**	**-15.6**	**110.2**
Group							
Net sales total	91.8	102.0	-10.0	167.8	183.0	-8.3	400.0
Net sales, internal	-10.7	-10.8	-0.9	-18.5	-18.0	2.8	-40.5
Net sales, external	**81.0**	**91.2**	**-11.1**	**149.3**	**165.0**	**-9.5**	**359.6**

COMPARABLE EBITDA BY SEGMENT

EUR million	Q2 20	Q2 19	H1 20	H1 19	2019
Finland & Exports	5.5	5.3	8.3	8.2	20.6
Scandinavia	2.9	2.0	2.8	1.7	12.1
Altia Industrial	4.9	2.3	7.1	3.3	11.4
Other	-0.1	-0.2	0.6	0.5	0.7
Total	**13.2**	**9.4**	**18.8**	**13.7**	**44.8**
% net sales	*16.3*	*10.4*	*12.6*	*8.3*	*12.4*

EUR million	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18	Q1 18
Finland & Exports	5.5	2.8	7.3	5.0	5.3	3.0	6.2	4.9	4.6	3.4
Scandinavia	2.9	-0.1	9.1	1.3	2.0	-0.3	8.0	0.8	1.5	-0.1
Altia Industrial	4.9	2.2	4.5	3.6	2.3	1.0	2.2	4.8	2.5	1.4
Other	-0.1	0.7	-1.3	1.5	-0.2	0.6	-0.6	-0.3	0.2	0.4
TOTAL comparable EBITDA	**13.2**	**5.5**	**19.7**	**11.4**	**9.4**	**4.3**	**15.9**	**10.3**	**8.7**	**5.2**
Items affecting comparability	-0.7	-0.1	0.2	-1.6	-0.2	-	-1.5	0.0	-0.4	-4.1
EBITDA	**12.6**	**5.4**	**19.8**	**9.8**	**9.2**	**4.3**	**14.4**	**10.3**	**8.3**	**1.1**
Depreciation, amortisation and impairment	-4.4	-4.4	-4.5	-4.5	-4.5	-4.5	-3.7	-3.6	-3.5	-3.5
Operating result	**8.2**	**1.0**	**15.3**	**5.3**	**4.8**	**-0.3**	**10.7**	**6.6**	**4.8**	**-2.5**

NET SALES BY PRODUCT CATEGORY (IFRS 15)

EUR million	Q2 20	Q2 19	Change, %	H1 20	H1 19	Change, %	2019
Spirits	28.8	31.6	-9.0	53.2	56.3	-5.5	121.3
Wine	28.0	30.9	-9.3	48.8	52.3	-6.7	124.9
Other beverages	0.5	1.2	-57.4	1.2	1.7	-29.4	3.1
Industrial products and services	23.8	27.5	-13.7	46.1	54.7	-15.6	110.2
Total	**81.0**	**91.2**	**-11.1**	**149.3**	**165.0**	**-9.5**	**359.6**

Notes to the tables

PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

EUR million	Intangible assets	Goodwill	Property, plant and equipment	Right-of-use assets	Total
Acquisition cost at 1 January 2020	148.1	128.3	247.9	14.1	538.4
Additions	0.4	–	2.4	0.3	3.1
Disposals	-0.0	–	-0.8	–	-0.8
Effect of movement in exchange rates	-1.6	-11.7	-0.1	-0.1	-13.6
Acquisition cost at 30 June 2020	146.9	116.5	249.4	14.3	527.1
Accumulated depreciation, amortisation and impairment losses at 1 January 2020	-123.0	-48.2	-187.0	-3.7	-361.8
Depreciation and amortisation	-3.0	–	-4.1	-1.7	-8.8
Accumulated depreciation and amortisation on disposals and transfers	0.0	–	0.7	–	0.7
Effect of movement in exchange rates	1.6	11.6	0.1	0.0	13.3
Accumulated depreciation, amortisation and impairment losses at 30 June 2020	-124.4	-36.6	-190.3	-5.4	-356.7
Carrying amount at 1 January 2020	25.2	80.1	60.9	10.4	176.6
Carrying amount at 30 June 2020	**22.5**	**80.0**	**59.1**	**8.9**	**170.4**
Acquisition cost at 1 January 2019	147.3	128.0	244.6	–	519.9
IFRS 16 acquisition cost 1 January 2019	–	–	–	10.7	10.7
Acquisition cost as at 1 January 2019, restated	147.3	128.0	244.6	10.7	530.6
Additions	0.9	–	2.3	2.9	6.1
Disposals	-0.1	–	-1.2	-0.1	-1.4
Effect of movement in exchange rates	-1.5	1.9	-0.2	-0.1	0.1
Acquisition cost at 30 June 2019	146.6	129.9	245.5	13.5	535.5
Accumulated depreciation, amortisation and impairment losses at 1 January 2019	-117.8	-47.3	-179.9	–	-345.0
Depreciation and amortisation	-3.0	–	-4.0	-1.9	-9.0
Accumulated depreciation and amortisation on disposals and transfers	0.1	–	0.9	–	1.0
Effect of movement in exchange rates	1.2	-2.9	0.1	–	-1.6
Accumulated depreciation, amortisation and impairment losses at 30 June 2019	-119.5	-50.2	-182.9	-1.9	-354.6
Carrying amount at 1 January 2019	29.6	80.7	64.6	–	174.9
Carrying amount at 30 June 2019	**27.1**	**79.8**	**62.5**	**11.5**	**181.0**

RELATED PARTY TRANSACTIONS

The following transactions have taken place with related parties:

EUR million	H1 20	H1 19	2019
Sales of goods and services			
Associates, joint ventures and joint operations	0.5	0.3	0.8
Other companies considered related parties	38.0	34.7	76.5
Total	**38.5**	**35.0**	**77.3**
Purchases of goods and services			
Associates, joint ventures and joint operations	0.9	1.0	1.9
Other companies considered related parties	0.7	0.7	1.2
Total	**1.6**	**1.7**	**3.2**
Outstanding balances from sales and purchases of goods and services	**30 Jun 2020**	**30 Jun 2019**	**31 Dec 2019**
Trade receivables			
Associates, joint ventures and joint operations	0.1	–	–
Other companies considered related parties	2.3	1.2	0.9
Trade payables			
Associates, joint ventures and joint operations	0.2	0.2	0.2
Other companies considered related parties	0.2	0.0	0.0

The Company's related parties include the subsidiaries, associated companies, joint ventures and joint operations. Related party transactions include such operations that are not eliminated in the Group´s consolidated financial statements.

Related party also include the Board of Directors, the CEO, the members of the Executive Management Team and their family members as well as entities controlled or jointly controlled by these persons. Also, entities that are controlled or jointly controlled by, or are associates of the State, are related parties of Altia. Altia has applied the exemption to report only material transactions with the government related entities. Transactions with related parties are entered into on market terms. Altia has related party transactions on a continuous basis with its major customer Alko. Transactions with Alko have been presented below under Other companies considered related parties.

ASSOCIATED COMPANIES AND JOINT ARRANGEMENTS

EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
Investments in associated companies and joint ventures:			
At the beginning of the reporting period	1.2	0.3	0.3
Additions	–	–	0.2
Share of result for the period	0.2	0.3	0.7
At the end of the reporting period	**1.4**	**0.6**	**1.2**
Financial summary of associated companies and joint ventures:			
Assets	7.8	8.4	8.8
Liabilities	3.1	5.8	4.9
Net assets	4.8	2.5	3.9
Net sales	7.5	8.9	18.5
Result for the period	0.5	1.2	2.6

COLLATERALS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
Collaterals given on behalf of Group companies			
Mortgages	18.5	18.5	18.5
Guarantees	5.2	5.4	5.9
Total collaterals	**23.7**	**23.9**	**24.4**
Commitments			
Short-term and low value lease obligations			
Less than one year	0.1	0.2	0.2
Between one and five years	0.1	0.1	0.1
Total short-term and low value lease obligations	0.2	0.3	0.3
Other commitments	17.8	19.1	20.8
Total commitments	**18.0**	**19.4**	**21.1**

Assets not recognised in the balance sheet			
Emission allowances, kilotons	**30 Jun 2020**	**30 Jun 2019**	**31 Dec 2019**
Emission allowances received	25.8	26.4	26.4
Excess emission allowances from the previous period	4.0	30.6	30.6
Adjustments related to prior year's estimates	–	-0.0	-0.0
Sold emission allowances	–	-20.0	-33.0
Realised emissions	-10.3	-10.9	-20.0
Total emission allowances	**19.5**	**26.1**	**4.0**
Fair value of emission allowances (EUR million)	0.5	0.7	0.1

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets, fair value, EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
Level 2			
Financial assets at fair value through profit or loss			
Forward exchange contracts	0.0	0.3	0.0
Derivatives, hedge accounting			
Forward exchange contracts	0.0	0.2	0.0
Commodity derivatives	–	0.6	0.3
Level 3			
Financial assets at fair value through other comprehensive income			
Unquoted shares	1.4	1.4	1.4

Financial liabilities, fair value, EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
Level 2			
Financial liabilities at fair value through profit or loss			
Forward exchange contracts	0.1	0.0	0.1
Derivatives, hedge accounting			
Forward exchange contracts	0.2	0.1	0.4
Interest rate derivatives	1.1	1.5	1.2
Commodity derivatives	0.0	–	–

The derivatives have been presented in the note above. The carrying amounts of other financial assets and liabilities in the balance sheet equal their fair value.

Share-based incentive scheme

In February 2020, the Board of Directors decided on a new earning period in the long-term performance share plan (PSP) for the management and key employees of Altia Group. The incentive scheme was established and announced in February 2019.

The second plan within the structure, PSP 2020–2022, commences as of the beginning of 2020 and the potential share reward thereunder will be paid in the spring 2023 provided that the performance targets set by the Board of Directors are achieved. The potential reward will be paid in listed shares of Altia.

The performance targets based on which the potential share reward under PSP 2020–2022 will be paid are the relative total shareholder return of Altia's share and earnings per share. Eligible to participate in PSP 2020–2022 are approximately 25 individuals.

If all the performance targets set for PSP 2020–2022 are fully achieved, the aggregate maximum number of shares to be paid based on this second plan is approximately 271 000 shares. This number of shares represents a gross earning, from which the applicable payroll tax is withheld and the remaining net value is paid to the participants in shares.

The aggregate gross value of this second plan is approximately EUR 2.3 million.

Appendix 1

KEY RATIOS

		Q2 20	Q2 19	H1 20	H1 19	2019
Income statement						
Net sales	EUR million	81.0	91.2	149.3	165.0	359.6
Comparable EBITDA	EUR million	13.2	9.4	18.8	13.7	44.8
(% of net sales)	%	16.3	10.4	12.6	8.3	12.4
EBITDA	EUR million	12.6	9.2	18.0	13.5	43.1
Comparable operating result (EBIT)	EUR million	8.9	5.0	9.9	4.7	26.8
(% of net sales)	%	10.9	5.5	6.7	2.9	7.5
Operating result	EUR million	8.2	4.8	9.2	4.5	25.1
Result before taxes	EUR million	7.6	4.5	9.3	4.7	24.6
Result for the period	EUR million	6.1	3.6	7.5	4.0	18.4
Items affecting comparability	EUR million	-0.7	-0.2	-0.7	-0.2	-1.7
Balance sheet						
Cash and cash equivalents	EUR million			101.2	27.7	64.2
Total equity	EUR million			149.5	137.6	151.2
Borrowings	EUR million			121.8	97.3	82.6
Invested capital	EUR million			271.3	234.9	233.8
Profitability						
Return on equity (ROE), rolling 12 months	%			15.2	12.0	12.2
Return on invested capital (ROI), rolling 12 months	%			9.3	8.0	8.5
Financing and financial position						
Net debt	EUR million			29.9	81.3	28.9
Gearing	%			20.0	59.1	19.1
Equity ratio	%			34.9	35.5	37.8
Net cash flow from operating activities	EUR million	25.7	24.7	10.3	-4.0	52.6
Net debt/comparable EBITDA, rolling 12 months				0.6	2.0	0.6
Share-based key ratios						
Earnings / share (Basic and diluted)	EUR	0.17	0.10	0.21	0.11	0.51
Equity / share	EUR			4.14	3.81	4.18
Personnel						
Average number of personnel		659	705	651	701	682

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES (APM) TO IFRS FIGURES AND ITEMS AFFECTING COMPARABILITY (IAC)

EUR million	Q2 20	Q2 19	H1 20	H1 19	2019
Items affecting comparability					
Net gains or losses from business and assets disposals	–	-0.1	–	-0.1	0.1
Cost for closure of business operations and restructurings	-0.2	-0.1	-0.3	-0.1	-0.2
Major corporate projects					
Costs related to the closed voluntary pension scheme	-0.5	–	-0.5	–	-1.6
Total items affecting comparability	**-0.7**	**-0.2**	**-0.7**	**-0.2**	**-1.7**
Comparable EBITDA					
Operating result	8.2	4.8	9.2	4.5	25.1
Less:					
Depreciation, amortisation and impairment	4.4	4.5	8.8	9.0	17.9
Total items affecting comparability	0.7	0.2	0.7	0.2	1.7
Comparable EBITDA	**13.2**	**9.4**	**18.8**	**13.7**	**44.8**
% of net sales	16.3	10.4	12.6	8.3	12.4
Comparable EBIT					
Operating result	8.2	4.8	9.2	4.5	25.1
Less:					
Total items affecting comparability	0.7	0.2	0.7	0.2	1.7
Comparable EBIT	**8.9**	**5.0**	**9.9**	**4.7**	**26.8**
% of net sales	10.9	5.5	6.7	2.9	7.5

Altia presents alternative performance measures as additional information to financial measures presented in the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows prepared in accordance with IFRS. In Altia's view, alternative performance measures provide significant additional information on Altia's results of operations, financial position and cash flows to management, investors, analysts and other stakeholders.

Alternative performance measures should not be viewed in isolation or as a substitute to the IFRS financial measures. All companies do not calculate alternative performance measures in a uniform way, and therefore Altia's alternative performance measures may not be comparable with similarly named measures presented by other companies.

THE DEFINITIONS AND REASONS FOR THE USE OF FINANCIAL KEY INDICATORS

Key figure	Definition	Reason for the use
EBITDA	Operating result before depreciation and amortization	EBITDA is the indicator to measure the performance of the Group.
EBITDA margin, %	EBITDA / Net sales	
Comparable operating result	Operating result excluding items affecting comparability	Comparable EBITDA, comparable EBITDA margin, comparable operating result and comparable operating margin are presented in addition to EBITDA and operating result to reflect the underlying business performance and to enhance comparability from period to period. Altia believes that these comparable performance measures provide meaningful supplemental information by excluding items outside normal business, which reduce comparability between the periods. Comparable EBITDA is an internal measure to assess performance of Altia and key performance measure at segment level together with Net Sales. Comparable EBITDA margin is also one of Altia's financial targets. Comparable EBITDA is commonly used as a base for valuation purposes outside the Company and therefore important measure to report regularly.
Comparable operating margin, %	Comparable operating result / Net sales	
Comparable EBITDA	EBITDA excluding items affecting comparability	
Comparable EBITDA margin, %	Comparable EBITDA / Net sales	
Items affecting comparability	Material items outside normal business, such as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development.	
Invested capital	Total equity + Borrowings	Base for ROI measure.
Return on equity (ROE), %	Result for the period (rolling 12 months) / Total equity (average of reporting period and comparison period)	This measure can be used to evaluate how efficiently Altia has been able to generate results in relation to the total equity of the Company.
Return on invested capital (ROI), %	(Result for the period + Interest expenses) (rolling 12 months) / (Total equity + Non-current and current borrowings) (average of reporting period and comparison period)	This measure is used to evaluate how efficiently Altia has been able to generate net results in relation to the total investments made to the Company.
Borrowings	Non-current borrowings + Current borrowings	Net debt is an indicator to measure the total external debt financing of the Group.
Net debt	Borrowings + Non-current and current lease liabilities - Cash and cash equivalents	
Gearing, %	Net debt / Total equity	Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's indebtedness. Important measure for the loan portfolio.
Equity ratio, %	Total equity / (Total assets - Advances received)	Equity / assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's capital used in the operations.
Net debt / comparable EBITDA	Net debt / Comparable EBITDA	The level of Net debt / Comparable EBITDA is one of Altia's financial targets.
Earnings / share	Result for the period attributable to shareholders of the parent company / Share-issue adjusted number of shares during the period	
Equity / share	Equity attributable to shareholders of the parent company / Share- issue adjusted number of shares at the end of period	

ALTIA

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The **H1 results presentation will be held on 19 August 2020 at 11:00 am EET as a Microsoft Teams Meeting**. We recommend that participants join the event using the online meeting option. Call-in option is also available.

Option A: Online meeting
Access meeting online here: Altia's H1 results presentation

Option B: Call-in
Call into the meeting about 5 minutes earlier at the below numbers.
FI: +358 9 2310 6678
SE: +46 8 502 428 54
UK: +44 20 3443 9579
US: +1 917-781-4622
Conference ID: 308 898 979#

Q&A
We recommend that questions to the management are sent through the Teams chat.

Presentation material and on-demand recording
The presentation material will be shared in the online meeting and it can be downloaded on Altia's website at: www.altiagroup.com/investors. A recording of the event will be available later at the same address.

Distribution:
Nasdaq Helsinki Ltd
Principal media
www.altiagroup.com

Directors' Report:
ARCUS ASA

The Arcus Group is a leading wine and spirits company in the Nordic region. The Group is a global market leader in the aquavit category, a market leader for spirits in Norway, and number two in Denmark. The Group is also the market leader for wine in Norway, number two in Sweden, and number five in Finland.

Arcus ASA is a holding company whose purpose is the import, export, production, storage and distribution of alcoholic beverages and other goods, as well as other activities related to this business, and the ownership of interests in other companies that conduct such business. Arcus' head office is located at Gjelleråsen in Nittedal Municipality, close to Oslo.

ABOUT THE COMPANY

Arcus ASA owns all of the shares in Arcus-Gruppen AS and Vectura AS. The purpose of the company is to manage shares and other company holdings, and the Group operates within the business areas of Wine, Spirits and Logistics.

The Wine business area imports, bottles, markets and sells wine in Norway, Sweden and Finland, as well as within tax-free (and in Denmark as from 2020). In 2019, the Wine business area achieved sales of NOK 1,603 million, compared to NOK 1,625 million in 2018. EBITDA (adjusted) was NOK 170 million in 2019, compared to NOK 182 million in 2018. The sales decrease is mainly due to the loss of agencies in the Swedish wine company Vinunic, in conjunction with former employee's commencement of competing activities. Apart from this, the Wine business area achieved sound growth. The operating profit for 2019 was NOK 158 million, compared to NOK 167 million for 2018.

The Spirits business area imports, produces, bottles, markets and sells spirits primarily in the Nordic region and Germany, but also in other selected export markets. Spirits also bottles the wine sold by the Wine business area. In 2019, the Spirits business area achieved sales of NOK 976 million, compared to NOK 920 million in 2018. EBITDA (adjusted) was NOK 149 million in 2019, compared to NOK 145 million in 2018. The higher sales are primarily driven by increased agency sales. Among own brands, sales of low-margin products increased, with rather weaker sales in high-margin markets. The operating profit for 2019 was NOK 122 million, compared to NOK 118 million for 2018.

The Logistics business area (Vectura) distributes alcoholic beverages in the Norwegian market. The Logistics business area achieved sales of NOK 328 million in 2019, compared to NOK 308 million in 2018. EBITDA (adjusted) was NOK 15 million in 2019, compared to NOK 13 million in 2018. Sales increased as a consequence of new customers and higher sales of services, while the result was reduced by an increased overtime ratio, and lease of lorries and drivers. The operating profit for 2019 was NOK 2 million, compared to NOK 1 million for 2018.

The company's registered office is in Nittedal Municipality.

STRATEGY AND BUSINESS DEVELOPMENT

Arcus' strategy is a strategy for growth.

The Wine business area must win important tenders announced by the monopolies, increase sales through its own brands, and attract good, new agencies. This strategy applies to Sweden, Norway and Finland. The portfolios are developing continuously, and their content is focused on where demand is expected to increase. In Norway in particular, this has led to major changes. Here, the portfolio has increased in recent years, with more white wine, rosé wine and sparkling wine, which has yielded good results.

The Spirits business area will achieve growth through production and sale of some of the Nordic region's strongest spirits brands, in particular aquavit, bitters and cognac. The domestic market is the Nordic region and Germany. During 2019, Spirits also added several international agencies to the portfolio. In Finland and Sweden in particular, this gave increased sales. In Denmark, where demand for aquavit and bitters had declined in recent years, Arcus in 2019 introduced sale of pre-mixed cocktails, vodka and gin. So far, this has given good results.

The Logistics business area will grow by gaining more customers, and also by ensuring low operating costs. 2019 was another year with revenue growth for Logistics. This is due to an increase number of customers, but also that these customers have increased their portfolios and required additional logistics services.

In addition to the strategy for each of the three business areas, Arcus has a strategy for the achievement of minor acquisitions. In 2019, this resulted in the acquisition of 90 percent of Wongraven Wines AS. Since 2010, Sigurd Wongraven has developed and sold quality wines in Norway, and as from 2010, in cooperation with Arcus' Vingruppen. In the course of 2020, the wines will be launched in new markets.

FINANCIAL DEVELOPMENT

Statement of income

In 2019, the Group's total operating revenue was NOK 2,763 million (NOK 2,723 million in 2018). As stated, Spirits achieved significant growth in 2019, mainly on the basis of new agencies. Wine gained sound growth in Norway, with growth for own brands and for agency products, although revenue in Sweden was reduced considerably after the loss of agencies early in the year. The positive market development and strong growth for some of the wine companies did not compensate for this sufficiently. Wine in Finland lost agencies at the end of 2018, which together with weak market development contributed to lower revenue in 2019. Logistics continued to develop positively and increased its revenue with additional customers, as well as higher volumes for existing customers.

The Group's operating costs totalled NOK 2,489 million, of which depreciation and amortisation amounted to NOK 120 million (NOK 2,463 million, of which depreciation amounted to NOK 50 million). The change in costs from the previous year was affected significantly by the introduction of new accounting rules for the book entry of leases (IFRS 16), which the Group implemented as from 1 January 2019. Reported depreciation increased by NOK 70 million, of which NOK 69 million is due to the implementation of IFRS 16.

In 2019, the Group's operating profit before depreciation (EBITDA) was NOK 377 million, compared to NOK 307 million in 2018. Operating EBITDA (adjusted for non-recurring items) was NOK 397 million, compared to NOK 313 million in 2018. As stated, the implementation of IFRS 16 is the most important reason for the increase in EBITDA.

The Group's net financial items amounted to NOK -85 million (NOK -36 million) in 2019. The increase in net financial items by NOK 49 million is to a great extent driven by the implementation of IFRS 16, which accounts for an increase of NOK 45 million in interest expenses.

In 2019, the Group's tax costs amounted to NOK 39 million, compared to NOK 57 million in 2018. The effective tax rate was 23 per cent, compared to 26 per cent for the previous year. The lower effective tax rate is mainly due to a lower actual tax rate in the Norwegian activity.

Balance sheet, cash flows

At the end of the year, the Group had brands and goodwill for NOK 1,902 million (NOK 1,857 million). To a great extent the increase is due to the acquisition of Wongraven Wines in December 2019.

At the close of the year, the Group had investments in fixed assets and software for NOK 1,452 million (NOK 343 million). The large increase is mainly based on the implementation of IFRS 16, which at the end of the year entailed an increase in rights of use of NOK 1,122 million, compared to the end of 2018.

Group equity was NOK 1,662 million as at 31 December (NOK 1,654 million). Changes in equity are affected positively by the profit for the year, but reduced by the dividend paid to minority shareholders in the Group and share-holders in the parent company. The equity ratio was 30 percent at year-end, which is 7 percentage points below the previous year. The reduced equity ratio, even though the Group's equity increased during 2019, is due to the significant increase in total liabilities as a consequence of the implementation of IFRS 16.

As at 31 December 2019, the Group's total liabilities amounted to NOK 3,928 million (NOK 2,783 million), of which interest-bearing debt amounted to 51 per cent. Of the increase from 2018 to 2019, NOK 1,142 million is due to calculated lease obligations in conjunction with the introduction of IFRS 16.

The Group's net cash flow from operational activities was NOK 292 million (NOK 395 million). The change is affected significantly by how Arcus in January 2018 received significant payments from Vinmonopolet that fell due on the last day of 2017, which did not take place in January 2019. In 2019, cash flow from operational activities was also affected negatively by temporarily higher stocks at year-end. On the other hand, cash flow from operations or activities was affected positively by the introduction of IFRS 16.

Significant changes in accounting policies

The introduction of IFRS 16 as from 1 January 2019 has entailed significant changes for the Group. Some of the effects are described in "Financial development" in the Directors' Report above. See also Note 13 to the consolidated financial statements, which gives a more detailed description of the changes which this has entailed.

There have been no other changes entailing significant effects for the Group.

Financial risk and risk management

The Board has adopted a financial policy, defining the framework and guidelines for financial risk management within the Group.

Arcus' principal source of revenue is the core business. The main risk management strategy for the Group is to limit the financial risk arising from the core business.

The most important financial risks to which the Group is exposed are associated with credit risk, interest-rate risk, liquidity risk and foreign currency risk.

To a small extent, Arcus uses financial instruments to hedge interest-rate and currency risks. The Group does not use hedge accounting and on initial recognition, financial instruments are recognised as financial instruments at fair value, while changes in value are recognised through profit or loss.

Credit risk

The finance policy stipulates that credit risk must be assessed before establishing credit purchase agreements with new customers. The assessment includes a review of accounting information, as well as other relevant and accessible data, to determine the credit limit and credit terms. Once a relationship has been established with a customer, credit risk and credit limits are continuously assessed in relation to the client's financial performance and payment history. Outstanding receivables are continuously monitored by the finance department in cooperation with the marketing departments of the individual businesses.

A large proportion of the Group's accounts receivable arise from the sale of wine and spirits to the state-owned monopoly outlets in the Nordic region. Credit risk associated with these customers is considered to be non-existent. The Group's credit risk is otherwise spread over a large number of small customers within the hotel, restaurant and café market, as well as a small number of distributors outside the Nordic region.

Interest-rate risk

The Group is exposed to interest-rate risk via financing activities (debt financing and financial leasing liabilities) and investments (bank deposits). At the end of 2019, the Group's non-current liabilities consisted of credit facilities at SEB and financial leasing at Nordea Finans and Volvo Finans. The interest-rate hedging policy entails that up to 50 percent of the base rate on non-current loans can be hedged. At the end of 2019, none of the Group's interest-bearing debt was hedged. The interest-rate margin on credit facilities at SEB is related to the size of the Group's net interest-bearing debt relative to EBITDA, while the agreement with Nordea Finans involves a fixed interest-rate margin.

Liquidity risk

Liquidity risk is the risk that the Group will not be in a position to service its financial liabilities as they fall due. Arcus must at all times have sufficient liquidity to meet its obligations. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of revenue development and capital binding, and through continuous assessment of alternative sources of finance.

Arcus aims for the greatest possible degree of flexibility in terms of utilising liquid assets as effectively as possible in day-to-day operations. This is achieved through a Group cash pool system with a drawing facility managed by Arcus AS.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. The Arcus Group did not raise any new loans during 2019, but entered into leasing agreements in connection with the replacement of lorries in Logistics.

Currency risk

The Group is exposed to currency risk as it operates in several countries and makes significant purchases in foreign currencies. The most significant currencies are euro, Danish krone, Swedish krona and US dollar.

The Group's currency exposure can mainly be divided into two groups: cash flow risk and translation risk. The overall objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in Norwegian kroner. It is continuously sought to offset changes in purchase costs from suppliers in functional currencies, due to exchange rate fluctuations, by changing sales prices for customers, and by renegotiation of purchase prices from suppliers.

The risk horizon, i.e. the time it takes to compensate for negative currency movements, is generally controlled by the price-adjustment opportunities in relation to the Nordic state monopolies. In Norway, this takes place every fourth month and in Sweden, every sixth month. Currency is purchased in the spot market in order to continuously offset net positions against monetary items. Forward contracts are used solely to hedge purchases in foreign currency on behalf of Vectura's customers, and possibly also on major acquisitions of companies or operating equipment in foreign currency, if there is a long time gap between contract establishment and settlement date.

Some of the Group's non-current borrowing is undertaken in Swedish kronor, as a natural hedging of cash flows in the form of dividends in Swedish kronor.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rates in the companies' functional currencies. The Group's presentation currency is Norwegian kroner. The Group is therefore further exposed to currency risk on translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged.

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2019 DISTRIBUTED BY COUNTRY

	Norway	Sweden	Denmark	Finland	Germany	Total
Women	90	29	4	10	2	135
Men	251	26	13	9	1	300
Total	**341**	**55**	**17**	**19**	**3**	**435**

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2019 DISTRIBUTED BY BUSINESS AREA

	Men	Women	Total
Spirits	96	46	142
Wine	37	47	84
Arcus-Gruppen AS	20	14	34
Vectura AS	146	27	173
Arcus ASA	2	0	2
Total	**301**	**134**	**435**

EMPLOYEES AND ORGANISATION

Employees

At year-end, the Group had 430.5 FTEs (full-time equivalents), distributed on 435 permanent employees, of whom 341 are employed in Norway. The parent company Arcus ASA has two employees. The gender distribution for the overall Group was 69 percent men and 31 percent women.

The Board of Directors considers the working environment and cooperation with employee representatives to be good and constructive. The co-involvement of employees is ensured at several levels of the Group. Permanent cooperation committees, consisting of employee representatives and representatives from management, have been established in the operating companies in Norway. At these meetings, the management provides information, and engages in discussions when needed. There is also a well-functioning corporate committee where the employees' Board members and key representatives meet before each Board meeting to discuss relevant, Group-wide issues.

Absence due to illness

The Group has a strong focus on sick leave rates. The Norwegian companies in the Group work closely with the occupational health service and NAV (the Norwegian Labour and Welfare Administration) to reduce sick leave. Individual follow-up and planning are important tools in this work. For Arcus-Gruppen AS with subsidiary in Norway, the sick leave rate was 4.6 percent in 2019, compared to the target of 4.2 percent. The target for 2020 has been retained at 4.2 percent. For Vectura AS, where a lot of manual and physical work is undertaken, sick leave was 6.8 percent in 2019, which is an improvement of 1.7 percentage points from 2018. The goal for 2019 was 7.5 percent, while the goal for 2020 is set at 6.5 percent. Sick leave varies considerably between departments and across business areas.

For the Arcus ASA Group, total sick leave in Norway amounted to 5.7 percent in 2019, which is an improvement of 0.7 percentage point from 2018. For comparison, the NHO (Confederation of Norwegian Enterprise) sick leave statistics for beverage production in Q3 2019 show absence with a medical certificate at 4.1 percent, and self-reported absence at an estimated 0.6 percent, which gives total sick leave of 4.7 percent.

Sick leave statistics and HSE incidents are presented each month at departmental meetings, on the intranet and on bulletin boards, and are considered by the working environment committees.

Working environment and HSE

The Group's operating companies work systematically with health, safety and the environment. Individual action plans are established and followed up centrally, at business area level, and in the working environment committees.

To avoid serious injuries and incidents, it is important to have an organisation and culture that can identify hazardous conditions, register adverse incidents and introduce corrective measures on an ongoing basis. In this respect, the operating companies in the Group have been successful. Adverse incidents are reported regularly. These incidents are reported on a monthly basis to management, employees, working environment committees and safety representatives.

All injuries are investigated to discover the underlying cause and measures are then implemented to avoid similar incidents.

In 2019, there were six injuries resulting in absence due to illness (four in Vectura AS and two in Arcus Norway AS). The injuries were not considered to be serious and the persons returned to work after a few days' absence. The Group's goal for 2020 is zero absence due to injuries.

Equal opportunities

Of the Group's 435 employees at year-end, 31 percent were women and 69 percent were men, which is the same level as the preceding year. The management groups of the operating companies all have female members. The Group Management of Arcus ASA has one female member. At year-end, the Group had 42 percent female managers, which is an increase of 10 percentage points from 2018.

At the end of 2019, the Board of Directors of the holding company (Arcus ASA) comprised ten Board members, of whom five were women. Three members of the Board of Directors are representatives elected by the employees, and two of these members are women. The proportion of female members of the Board of Directors thereby fulfils the statutory requirements concerning female representation on ASA's board of directors.

In connection with the local salary settlement in 2019 in Norway, the parties reviewed the situation concerning equal opportunities and equal pay. The parties agreed that satisfactory consideration is made of equal pay and equal opportunities.

Diversity

The Group has a stated policy not to discriminate on the basis of gender, religion, race, sexual orientation, age, functional disability, or ethnic and/or cultural origin.

At the end of 2019, the employees represented around 30 different languages and approximately 20 percent of the employees did not have a Nordic cultural or ethnic background.

Arcus' goal is to eliminate all forms of discrimination or harassment. The Group's Work Regulations and Ethical Rules set out guidelines for this, and good reporting procedures have also been established.

In 2019, a new Plan for Diversity and Inclusion was also drawn up. The plan defines concrete targets and activities. As a Group and employer, Arcus ASA must promote equal opportunities and prevent discrimination of its employees.

The Board of Directors and the management groups of the operating companies are aware of this in relation to recruitment, appointments, salary appraisals and working conditions, as well as through awareness-raising activities.

Ethical guidelines

The Group's ethical guidelines define, clarify and ensure a common business ethics framework to outline the expectations of the ethical and appropriate behaviour of all employees. The Group's ethical guidelines stipulate that Arcus has zero tolerance for discrimination, bullying and corruption. As part of the ethical guidelines, provision is also made for the notification of any misconduct within the Group. Whistleblowers can use a designated telephone number, established for this purpose. All employees have been made aware of this option, and the fact that their anonymity is guaranteed. In 2019, one whistleblower report was made.

Data protection

Arcus adheres to the EU's General Data Protection Regulation (GDPR). The previous procedures for compliance and control were revised in 2019, so that Arcus handles personal data protection in accordance with GDPR.

On the basis of the mapping it was concluded that Arcus is not subject to the requirement of a separate data protection officer (cf. Article 37 of GDPR). To ensure compliance with legislation across the Group's business areas it has nonetheless been decided to appoint a separate data protection committee. The main function of the committee will be to ensure compliance with new data protection legislation by Arcus ASA with subsidiaries.

Environment

Consideration of the external environment is an important aspect of corporate social responsibility at Arcus and there was increased activity in 2019. The Sustainability Report on pages 36-54 is part of the Directors' Report, but certain aspects are highlighted by the Board of Directors below:

Using the right packaging is one of the areas in which Arcus can do its best to contribute to a better environment. According to a survey by the Nordic alcohol monopolies in 2016, glass production is by far the biggest environmentally adverse factor in the alcohol monopolies' activities. This is the reason that Arcus in 2019, for the first time, has sold wine in returnable plastic bottles. Plastic that is recirculated is a far more environmentally friendly type of packaging than glass, for example.

Arcus has also engaged in organisations and fora in which environmental measures take highest priority. As an element of this, Arcus has taken the "Plastic Pledge". This entails a commitment to reduce plastic consumption by 30 percent. Before 2025, at least 50 percent of the plastic used must be recirculated plastic.

In 2019, the recirculation of own waste increased to 64 percent (50 percent in 2016), and six lorries with old engines were replaced by more ecofriendly Euro 6 engines.

Arcus supports a precautionary approach to environmental challenges, and works systematically to reduce the impact of its activities on the external environment. In 2017, the Group set 11 specific KPIs that are to be achieved before 2020. They include KPIs for reduction of carbon dioxide and increased recirculation of waste. The status for each of these 11 parameters is presented in the Sustainability Report.

In line with Section 3-3c of the Norwegian Accounting Act, the Annual Report includes a separate report on Arcus' corporate social responsibility, including the current status for each of the 11 KPIs. This report is an integrated element of the Annual Report.

Alcohol

Arcus takes a clear stance on responsible alcohol consumption. Our aim is to raise awareness and understanding of our approach to alcohol and responsible consumption among all of the target groups which are relevant for Arcus. This is the background to our "Think before you drink" campaign, launched in the autumn of 2015, which has become an integral aspect of Arcus' communication strategy. "Think before you drink" is both an internal and external awareness campaign, reaching all employees and all stakeholders in contact with Arcus.

In the three years from 2017 to 2019, Arcus has run a campaign directed at high-school graduates. The "Think before you drink" message is shared on the graduates' own digital channels. At the celebrations at Tryvann and Tusenfryd in Oslo, 7,000 filled bottles of water were distributed to graduates in 2019, with ample opportunity to refill the bottles. This was 1,000 more bottles than in 2018. Twenty water drums were also distributed to the graduates' buses, to ensure that bottles could easily be refilled. Arcus was not identified as the originator of the initiative.

Alcolocks are installed on all lorries and new company cars. AKAN (organisation to prevent alcohol abuse at work) committees and AKAN contacts have also been established in the operating companies.

The Annual Report includes a separate report on Arcus' organisation.

Ownership
On 1 December 2016, Arcus ASA was listed on the Oslo Stock Exchange, and at year-end 2018/19 had 2,250 shareholders. At the close of the year, three shareholders each held more than 5 percent of the company's shares: Canica AS (44.2 percent), Geveran Trading Co Ltd (9.9 percent) and Verdipapirfondet DNB Norge (IV) (5.1 percent). Quarterly results have been presented in Oslo for each quarter. In addition, one-to-one investor meetings were held in Oslo on a regular basis throughout the year, and Arcus attended internal and external investor presentations under the auspices of stockbroker firms.

The Annual Report includes a separate report on Arcus' corporate governance compliance. This is an integrated element of the Annual Report.

Continued operations
In accordance with Section 3-3a of the Norwegian Accounting Act, it is confirmed that the company is a going concern. The basis for this lies in the long-term plans and strategic choices that have been made.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

Since the COVID-19 outbreak, Arcus' business segments have managed to keep operations stable. Supply of wine and other raw materials, has more or less been according to plan due to close cooperation with our partners. At our production and bottling facility, there have been no major disruptions. Sales of wine and spirits to Vinmonopolet has been higher than normal. The main reasons are strongly reduced sales to Duty Free Travel Retail, hotels, restaurants and cafés, and strongly reduced shopping at the Swedish border. Logistics has had high activity due to increased demand at Vinmonopolet, and operation and deliveries have been very close to plan.

No employees have so far reported COVID-19 infection. By mid-April 3,7 percent of the employees were temporarily laid off. All temporary layoffs in Arcus are related to reduced sales to hotels, restaurants and bars. To minimize temporary layoffs, some of these employees have worked in our production, to fill vacant positions.

The Group's overdraft facility at SEB has been increased from 600 MNOK to 800 MNOK to provide additional liquidity reserves during the potentially volatile situation caused by the COVID-19 outbreak. The due date on the group's term loan has also been extended by one year to 1 December 2022.

Given the challenging situation faced by some of our customers we are closely monitoring the situation and taking appropriate actions to mitigate the risk of credit losses. We currently estimate that the effect will be relatively moderate and have made appropriate extra-ordinary provisions for expected losses in our Q1 accounts.

On 11 March, Arcus announced that Vectura and Cuveco were assessing the possibility of a merger. In an industry subject to strong competition and low margins, the two parties would like to establish a company that, over time, can develop even better services.
A merger would make it possible to achieve a size that makes it easier to invest for the future in automation, digitalisation and sustainable solutions. The new company would gradually be able to offer a better and broader range of services to its many customers. The Norwegian Competition Authority (Konkurransetilsynet) has approved the possible merger between Vectura and Cuveco. The merger project will then move on to the next stage of negotiations and planning.

APPROPRIATION OF PROFITS

The parent company Arcus ASA reported a profit for the year of NOK 52 million in 2019, compared to NOK 55 million in 2018. The Board proposes the allocation of dividend of NOK 1.66 per share, in total NOK 113 million, and that the profit of NOK 52 million be transferred to other equity.

FUTURE PROSPECTS

In conjunction with the IPO, the company published its long-term growth targets, including organic revenue growth of 3-5 percent, including minor bolt-on acquisitions, and EBITDA growth of 6-9 percent in the next three to five years. The Board continues to set these targets as the basis for the Group's continued development.

Gjelleråsen 29 April 2020

Michael Holm Johansen Chairman of the Board	Carl Erik Hagen	Nils Selte	Ann-Beth Freuchen
Eilif Due	Leena Saarinen	Kirsten Ægidius	Ann Therese Jacobsen
Konstanse M. Kjøle	Erik Hagen	Kenneth Hamnes Group CEO	

BOARD OF DIRECTORS


Michael Holm Johansen
Chairman of the Board


Carl Erik Hagen
Board member


Nils Selte
Board member


Ann-Beth Freuchen
Board member


Eilif Due
Board member


Leena Saarinen
Board member


Kirsten Ægidius
Board member


Ann Therese Jacobsen
Board member


Konstanse M. Kjøle
Board member


Erik Hagen
Board member

Financial Statements and Notes

CONSOLIDATED FINANCIAL STATEMENTS

Statement of income 01.01. -31.12.

Figures in NOK 1,000	Note	2019	2018
OPERATING REVENUE AND EXPENSES			
Sales revenue	2,3	2,710,374	2,672,615
Other operating revenue	2,3	52,403	50,586
Total operating revenue	2,3	**2,762,777**	**2,723,201**
Net gain on sale of fixed assets	4,11,12	11	365
Cost of sales	15,22	-1,601,113	-1,577,306
Salaries and other personnel costs	6,7,8	-439,220	-426,644
Depreciation and amortisation	11,12,13	-119,573	-50,005
Other operating expenses	5	-329,443	-409,330
Share of profit from associated companies and jointly controlled entities	23	4,059	2,311
Operating profit before other income and expenses		**277,498**	**262,592**
Other income and expenses	5	-19,744	-5,296
Operating profit		**257,754**	**257,296**

Figures in NOK 1,000	Note	2019	2018
FINANCIAL INCOME AND EXPENSES			
Interest income	9	22,498	12,906
Other financial income	9,18	30,038	27,740
Interest costs	9	-99,128	-39,029
Other financial costs	9,18	-38,693	-37,733
Net financial profit/loss		**-85,285**	**-36,116**
PROFIT BEFORE TAX		**172,469**	**221,180**
Tax	10	-39,182	-56,763
Profit for the year		**133,287**	**164,417**
The profit for the year is allocated to			
Non-controlling interests	26	5,466	5,954
Parent company shareholders		127,821	158,463
		133,287	**164,417**
Earnings per share (NOK)			
Earnings per share	21	1.88	2.33
Diluted earnings per share	21	1.79	2.25

Total comprehensive income 01.01. – 31.12.

Figures in NOK 1,000	Note	2019	2018
Profit for the year		**133,287**	**164,417**
Items that will not be reclassified against the statement of income:			
Estimate deviations, pensions	8	-1,989	9,900
Total		**-1,989**	**9,900**
Tax on items that will not be reclassified against the statement of income	10	438	-2,277
Total		**-1,551**	**7,623**
Items that may be reclassified against the statement of income:			
Translation differences on translation of foreign subsidiaries		-5,000	6,967
Total		**-5,000**	**6,967**
Tax on items that may be reclassified against the statement of income		0	0
Total		**-5,000**	**6,967**
TOTAL COMPREHENSIVE INCOME		-6,551	14,590
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		126,736	179,007
The total comprehensive income for the year is allocated as follow			
Non-controlling interests		5,104	5,214
Parent company shareholders		121,632	173,793
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		126,736	179,007
Total comprehensive income per share (NOK)			
Earnings per share	21	1.79	2.55
Diluted earnings per share	21	1.70	2.47

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2019	2018
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	12	1,048,185	1,042,130
Brands	12	853,965	815,009
Software	12	21,033	26,752
Total intangible assets		**1,923,183**	**1,883,891**
Tangible fixed assets			
Tangible fixed assets	11	151,973	315,839
Rights of use	13	1,279,262	0
Total tangible fixed assets		**1,431,235**	**315,839**
Deferred tax assets	10	**86,100**	**110,158**
Financial assets			
Investments in associated companies and jointly controlled entities	23	64,521	61,291
Other investments in shares	1	249	200
Other non-current receivables	14	506	1,581
Total financial assets		**65,276**	**63,072**
Total fixed assets		**3,505,794**	**2,372,960**

Figures in NOK 1,000	Note	2019	2018
Current assets			
Inventories	15	486,612	441,117
Receivables			
Trade receivables	1	1,278,500	1,260,709
Prepayments to suppliers	14	63,152	52,999
Other receivables	10,14	50,810	26,983
Total receivables		**1,392,462**	**1,340,691**
Bank deposits	1,17	205,029	282,594
Cash and cash equivalents		**205,029**	**282,594**
Total current assets		**2,084,103**	**2,064,402**
TOTAL ASSETS		**5,589,897**	**4,437,362**

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2019	2018
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	21	1,360	1,356
Share premium		770,743	770,743
Total paid-in equity		**772,103**	**772,099**
Retained earnings			
Other equity		886,224	878,970
Total retained earnings		**886,224**	**878,970**
Non-controlling interests	26	3,896	2,965
Total equity		**1,662,223**	**1,654,034**
Liabilities			
Provisions			
Deferred tax liability	10	101,260	101,845
Pension obligations	8	23,724	21,077
Liabilities at fair value through profit or loss	1,18	69,343	74,218
Other provisions for liabilities	20	0	92
Total provisions		**194,327**	**197,232**

Figures in NOK 1,000	Note	2019	2018
Other non-current liabilities			
Debt to financial institutions	1,19	703,829	874,895
Lease obligations	13,19	1,151,016	0
Other non-current liabilities		464	647
Total other non-current liabilities		**1,855,309**	**875,542**
Current liabilities			
Debt to financial institutions	1,19	0	18,063
Lease obligations	13,19	154,199	0
Trade payables		570,499	576,783
Tax payable	10	5,002	0
Unpaid public duties	16	959,697	930,452
Other current liabilities	16,20	188,641	185,256
Total current liabilities		**1,878,038**	**1,710,554**
Total liabilities		**3,927,674**	**2,783,328**
TOTAL EQUITY AND LIABILITIES		**5,589,897**	**4,437,362**

Gjelleråsen, 29 April 2020

Michael Holm Johansen
Chairman of the Board

Carl Erik Hagen

Nils Selte

Ann-Beth
Freuchen

Eilif Due

Leena Maria
Saarinen

Kirsten Ægidius

Ann Therese
Jacobsen

Konstanse M.
Kjøle

Erik Hagen

Kenneth Hamnes
Group CEO

Statement of cash flows 01.01. -31.12.

Figures in NOK 1,000		2019	2018
CASH FLOWS FROM OPERATIONS			
Profit before tax		172,469	221,180
Depreciation and amortisation	11,12,13	119,573	50,005
Share of profit from associated companies and jointly controlled entities	23	-4,059	-2,311
Dividends received from associated companies and jointly controlled entities	23	447	445
Taxes paid	10	-34,928	-39,991
Interest costs during the period	9	97,510	37,406
Pension costs and other provisions without cash effect	4	567	197
Value changes and other costs without cash effect	4	-304	12,155
Profit/loss on sale of fixed assets and intangible fixed assets	4	-11	-365
Unrealized agio effects	4	-2,527	1,195
Change in inventories	4,15	-45,495	-30,358
Change in trade receivables	4	-16,342	171,455
Change in trade payables	4	-6,324	-27,101
Change in other current assets and other liabilities	4	11,098	624
Net cash flows from operational activities		**291,674**	**394,536**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments on acquisition of intangible fixed assets	12	-1,496	-3,270
Payments on purchase of tangible fixed assets	11	-18,723	-19,812
Proceeds from sale of tangible fixed assets	4,11	146	365
Payments on acquisition of business	25	-50,690	0
Payments on acquisition of other financial investments	4	-15	-119
Net cash flow from investment activities		**-70,778**	**-22,836**

Figures in NOK 1,000		2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Payouts in share-based incentive programme	4,7	-2,125	0
Repayment on interest-bearing debt	1,19	-66,162	-17,370
Change in other non-current loans	14	1,075	-360
Change in overdraft facility	19	0	-72,700
Interest cost paid during the period	4,9	-97,314	-37,302
Payments for acquisition of non-controlling interests	4	0	-6,150
Payment for purchase of own shares		-2,915	-8,303
Payments of dividends	4,26	-116,214	-118,716
Net cash flow from financing activities		**-283,655**	**-260,901**
Effect of exchange rate fluctuations on cash and cash equivalents		-14,806	-12,620
Effect of exchange rate fluctuations on cash and cash equivalents		**-14,806**	**-12,620**
Net change in cash and cash equivalents		**-77,565**	**98,179**
Holdings of cash and cash equivalents as at 01.01.		282,594	184,415
Holdings of cash and cash equivalents as at 31.12.	17	**205,029**	**282,594**

Statement of changes in equity

Figures in NOK 1,000	Share capital	Portfolio of own shares	Share premium	Translation differences	Share-based payment fund	Other retained earnings	Total for owners of the parent company	Non-controlling interests	Total for the Group
Equity as at 31.12.2017	**1,360**	**0**	**770,743**	**300,812**	**8,504**	**569,173**	**1,650,592**	**18,823**	**1,669,415**
Profit for the year 2018	0	0	0	0	0	158,463	158,463	5,954	164,417
Total comprehensive income 2018	0	0	0	7,707	0	7,623	15,330	-740	14,590
Total profit for the year 2018	**0**	**0**	**0**	**7,707**	**0**	**166,086**	**173,793**	**5,214**	**179,007**
Transactions with owners 2018									
Purchase of own shares	0	-4	0	0	0	-8,299	-8,303	0	-8,303
Share-based payment	0	0	0	0	6,722	0	6,722	0	6,722
Payment of dividend	0	0	0	0	0	-112,919	-112,919	-5,797	-118,716
Changes in non-controlling interests	0	0	0	0	0	-61,534	-61,534	-12,557	-74,091
Transfer of profit for the year from minority to majority*	0	0	0	0	0	2,718	2,718	-2,718	0
Total transactions with owners 2018	**0**	**-4**	**0**	**0**	**6,722**	**-180,034**	**-173,316**	**-21,072**	**-194,388**
Equity as at 31.12.2018	**1,360**	**-4**	**770,743**	**308,519**	**15,226**	**555,225**	**1,651,069**	**2,965**	**1,654,034**
Profit for the year 2019	0	0	0	0	0	127,821	127,821	5,466	133,287
Total comprehensive income 2019	0	0	0	-4,670	0	-1,551	-6,221	-330	-6,551
Total profit for the year 2019	**0**	**0**	**0**	**-4,670**	**0**	**126,270**	**121,600**	**5,136**	**126,736**
Transactions with owners 2019									
Purchase of own shares	0	4	0	0	0	-538	-534	0	-534
Share-based payment	0	0	0	0	-2,007	0	-2,007	0	-2,007
Payment of dividend	0	0	0	0	0	-112,872	-112,872	-3,342	-116,214
Changes in non-controlling interests	0	0	0	0	0	0	0	208	208
Transfer of profit for the year from minority to majority*	0	0	0	0	0	1,071	1,071	-1,071	0
Total transactions with owners 2019	**0**	**4**	**0**	**0**	**-2,007**	**-112,339**	**-114,342**	**-4,205**	**-118,547**
Equity as at 31.12.2019	**1,360**	**0**	**770,743**	**303,849**	**13,219**	**569,156**	**1,658,327**	**3,896**	**1,662,223**

* Non-controlling interests in the Group are related to interests in subsidiaries within the Wine business area, where there are put options that may be exercised at a given time in the future. The value of the put options is recognised as liabilities at fair value and has reduced the non-controlling interests' share of equity. The share of profit for the year is presented as allocated profit to the non-controlling interest in the statement of income. Since the Group has recognised the liability on the put options against the non-controlling interests' share of equity, the share of profit from non-controlling interests, adjusted for any distributed dividend and exchange rate translation differences, is transferred to the owner of the parent company's share of equity at the end of each reporting period.

The remaining book value of non-controlling interests is related to non-controlling interests for which no put options exist.

Brief history of the Group

Arcus ASA is registered and domiciled in Norway, and located at Destilleriveien 11 in Gjelleråsen in Nittedal Municipality, just north of Oslo. The consolidated financial statements include the parent company and subsidiaries (together referred to as "Arcus" or the "Group", and individually as a "Group company"), as well as the Group's holdings in associated companies. The Group's principal activity is the import, production, marketing, sale and distribution of wine and spirits.

Historical development

The Group has carried out the following important transactions in recent years:

2019

- In May, the Group established the new, wholly-owned subsidiary Arcus Co Brands AS in Norway, and in November the wholly-owned company, Arcus Winebrands Sweden AB, in Sweden. Both companies were established to strengthen the focus on own wine brands in Norway and Sweden.
- In December, the Group acquired 90.01 percent of Wongraven Wines AS, which will be included in the Norwegian wine agency business.

2018

- In Q2, the Group's Norwegian spirits activity established a new subsidiary, Atlungstad Håndverksdestilleri AS, which as from 2019 took over the production at Stange in Hedmark.
- In June, the Group acquired a further 10.1 percent interest in Symposium Wines AS, which is part of the Group's Norwegian wine business. The Group thereafter has an interest of 90.1 percent.
- In Q3, the Group's spirits activity in Sweden established a new subsidiary, Stockholms Spritfabrik AB, which will operate agency brands for spirits in Sweden.
- In Q3, the Group's wine activity in Norway established three new subsidiaries: Classic Wines AS, Creative Wines AS and Arcus Brand Lab AS. The first two companies will conduct agency brands, while Arcus Brand Lab AS will be part of the company with its own brands.
- In Q4, the Group's Swedish wine activity established a new subsidiary, New Frontier Wines AB, which will be included in the Swedish wine agency activity.

2017

- In January, the Group acquired the remaining 50 percent interest in Det Danske Spiritus Kompagni A/S. Det Danske Spiritus Kompagni A/S thereby became the wholly-owned subsidiary in the Group's spirits business.
- In January, the Group established Vingruppen Finland Oy, as a wholly-owned subsidiary of Vingruppen i Norden AB.
- In February, the Group acquired the remaining 9.9 percent interest in Excellars AS. Excellars AS thereby became the wholly-owned subsidiary in the Group's wine business.
- In June, the Group increased its ownership of Valid Wines Sweden AB from 97.0 percent to 100.0 percent on the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares. At the same time, the company sold 16.9 percent of the shares to the company's general manager, so that after the transaction the Group has an ownership interest of 83.1 percent in Valid Wines Sweden AB.
- In September, the Group acquired 100 percent of the shares in the Norwegian company BevCo AS, which as from the same date is part of the Group's spirits business. Among other things, the company has the distribution rights for Dooley's Toffee in Norway.
- In October, the Group acquired the Vanlig brand, which comprises a vodka and a gin product. The Group took over sales of this product as from the same date, while production was taken over during Q1 2018.
- In December, the Group acquired the Hot n'Sweet brand, which is a vodka shot. The Group took over sales of this product as from 1 January 2018, while production was taken over during Q1 2018.

2016

- In February, the Group increased its ownership of Excellars AS from 51.0 percent to 90.1 percent by the subsidiary Vingruppen AS' acquisition of minority shares.
- In February, the Group increased its ownership of Wineagency Sweden AB from 80.0 percent to 90.0 percent on the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In July, the Group increased its ownership of Wineworld Sweden AB from 80.0 percent to 90.0 percent on the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In August, the Group acquired the Dworek vodka brand.
- In December, the Group increased its ownership of Vingruppen i Norden AB from 99.37 percent to 100.0 percent on the subsidiary VinGruppen Sweden Holding AB's acquisition of the remaining minority shares.
- Arcus-Gruppen Holding AS was restructured as a public limited liability company, and changed its name to Arcus ASA, before the company's listing on the Oslo Stock Exchange on 1 December.

2015

- In February, acquired the aquavit brand Snälleröds in Sweden.
- In April, acquired the wine activity from Fondberg in Finland. Changed the name of the company to Social Wines Oy.
- In September, acquired 70 percent of the shares in a recently-founded Norwegian wine company, Heyday Wines AS.
- In Q4, reorganised the ownership of Vingruppen i Norden AB, by selling the shares to a newly-established wholly-owned holding company in Sweden called VinGruppen Sweden Holding AB.
- Discontinued production in Aalborg and moved the production and bottling of the Danish brands (Aalborg Aquavit, Malteserkreutz and Gammel Dansk) to customised facilities at Gjelleråsen.

Noter

NOTE 1 MANAGEMENT OF FINANCIAL RISK

Financial risk
The Group has a Board-adopted financial policy in which strategy and guidelines for financial risk management are defined. Responsibility for the execution of the adopted financial policy lies with Arcus ASA, but is implemented in cooperation with the individual business areas. The Arcus Group's principal source of revenue is the core business, and the Group's main strategy with regard to risk is not to speculate, but to limit the financial risk that the core business creates.

The most important financial risks to which the Group is exposed are associated with credit risk, interest-rate risk, liquidity risk and foreign currency risk.

For hedging purposes associated with interest-rate and currency risk, the Group to a certain degree uses financial derivatives. The Group does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes. The accounting treatment of financial derivatives is described under Accounting policies.

Credit risk
The Group has a procedure for the management of credit risk, which indicates that credit risk must be assessed before establishing a customer relationship by examining financial statements and other relevant and available information, and by determining credit periods and credit limits. The credit procedure also defines that after the establishment of a customer relationship:

- Customers that are granted credit must be subject to systematic credit assessment, with the establishment of credit limits that are followed up regularly.
- Credit terms in conjunction with sale to customers must be kept to a minimum and may normally not exceed 30 days.
- Credit risk must be reviewed and assessed at least quarterly.

If it is discovered that a credit assessment has not been made for a merchant customer, or is older than six (6) months, a credit check must be performed immediately.

Outstanding amounts are continuously monitored in cooperation between the finance department and the marketing departments of the individual businesses. If an outstanding amount is not paid, a reminder must be sent. Reminders/collection notices must be run once a week, and other activities must be assessed on an ongoing basis.

On a monthly basis, and on the basis of the Group's template rules, the credit department calculates the loss provisions required. For trade receivables without significant financing components, the simplified model in accordance with IFRS 9 is used, whereby provision is made for expected losses across useful life as from first recognition. The simplified model entails measurement of expected loss during useful life, rather than 12 months and tracking of credit risk.

A significant share of the Group's revenue is associated with the state monopolies in the Nordic region, where there is not considered to be any credit risk. The Group's credit risk is otherwise spread over a large number of small customers within the HORECA market, as well as a small number of distributors outside the home markets.

At the end of 2019 the Group had no significant factoring agreements.

The Group's maximum credit risk is equivalent to the book value of financial assets. See also the table to this Note which categorises financial assets.

Overview of bad debts and age analysis of accounts receivable

Figures in NOK 1,000	**31.12.2019**	**31.12.2018**
Nominal accounts receivable	1,280,588	1,261,888

As at 31 December, the Group had the following accounts receivable fallen due but not paid

31.12.2019[1] *Figures in NOK 1,000*	**Total**	**Not due**	**Due in 0-60 days**	**Due in 61-365 days**	**Due date after more than 1 year**
Nominal accounts receivable	1,280,588	1,238,382	40,671	1,535	0
Provision for losses on accounts receivable	-2,088	0	-553	-1,535	0
Book value, accounts receivable	**1,278,500**	**1,238,382**	**40,118**	**0**	**0**

31.12.2018[1] *Figures in NOK 1,000*	**Total**	**Not due**	**Due in 0-60 days**	**Due in 61-365 days**	**Due date after more than 1 year**
Nominal accounts receivable	1,261,888	1,208,581	51,529	1,778	0
Provision for losses on accounts receivable	-1,179	0	-683	-496	0
Book value, accounts receivable	**1,260,709**	**1,208,581**	**50,846**	**1,282**	**0**

1. As at the end of 2019 there were no items receivable from Vinmonopolet. In the same way, NOK 1 million was items receivable from Vinmonopolet at the end of 2018.

Interest-rate risk
The Group is exposed to interest-rate risk via financing activities (debt financing and leasing liabilities) and investments (bank deposits). At the end of 2019, the Group's non-current liabilities were associated

with credit facilities at SEB and debt associated with lease agreements. Group policy is to hedge up to 50 percent of the base interest rate on non-current loans. The Group assesses the policy on an ongoing basis, and as at 31.12.2019 all interest rates were variable.

The margin on credit facilities at SEB is related to the ratio of net interest-bearing debt to EBITDA. Other margins are fixed. Obligations related to lease commitments are generally estimated using the Group's marginal borrowing rate.

Figures in NOK 1,000	Currency	Interest rate profile	Maturity	2019	2018
Current interest-bearing debt					
Lease obligations	NOK	Variable	2020	148,115	18,063
Lease obligations	SEK	Variable	2020	3,265	0
Lease obligations	DKK	Variable	2020	458	0
Lease obligations	EUR	Variable	2020	2,361	0
Non-current interest-bearing debt					
Non-current loan to financial institutions	SEK	Variable	2021	709,950	728,325
Lease obligations	NOK	Variable	2021-2037	1,109,432	151,394
Lease obligations	SEK	Variable	2021-2024	9,599	0
Lease obligations	DKK	Variable	2021-2051	28,556	0
Lease obligations	EUR	Variable	2021-2022	3,429	0

Sensitivity analysis, interest 31.12.2019

Figures in NOK 1,000	Increase/reduction in basis points	Effect on profit before tax
Loans in NOK	50	-10,061
Loans in NOK	-50	10,061

Liquidity risk

Liquidity risk is the risk that the Group will not be in a position to service its financial liabilities as they fall due. The Arcus Group's capital management is described in a separate section of this note.

The Group's business are subject to seasonal fluctuations, and alcohol sales normally increase in periods with national celebrations and public holidays, especially at Easter and Christmas. The fourth quarter is normally the best quarter for the Group, which is also reflected in cash flows.

Cash flows from operations, which are, for example, affected by changes in working capital, are managed operationally by the business areas. Via reporting, the finance department monitors liquidity flows in the short and long term. Interest-bearing debt is followed up and managed together with interest-bearing receivables at Group level.

The following table presents an overview of the maturity structure for the Group's financial liabilities, based on non-discounted contractual payments. In instances where the counterparty can demand earlier redemption, the sum is recorded in the earliest period in which the payment can be demanded by the counterparty.

2019	Remaining period		
	0-1 year	**1-5 years**	**More than 5 years**
Debt to financial institutions – mortgage loans	0	709,950	0
Lease obligations*	154,199	262,329	888,687
Liabilities at fair value	0	69,343	0
Other provisions for liabilities	0	417	0
Trade payables	570,499	0	0
Current non-interest bearing debt**	1,148,338	0	0
Interest related to mortgage loans	10,604	10,604	0
Interest related to lease obligations	48,237	157,049	254,633
Total	**1,931,877**	**1,209,692**	**1,143,320**

2018	Remaining period		
	0-1 year	**1-5 years**	**More than 5 years**
Debt to financial institutions – mortgage loans	0	728,325	0
Lease obligations*	18,063	150,101	1,293
Liabilities at fair value	0	74,218	0
Other provisions for liabilities	0	92	0
Trade payables	576,783	0	0
Current non-interest bearing debt**	1,115,710	0	0
Interest related to mortgage loans	10,925	21,850	0
Interest related to lease obligations	4,194	3,301	66
Total	**1,725,675**	**977,887**	**1,359**

* Read more about the maturity profile of lease obligations in Note 13 concerning lease agreements.
** Current liabilities include collected alcohol taxes.

Currency risk

The Group is exposed to currency risk as it has operations in several different countries. The Group's currency exposure can mainly be divided into two groups: cash flow risk and translation risk. The principal objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in NOK. Changes in purchase costs from suppliers in functional currency due to currency changes are continuously offset by changes in sales prices to customers and through renegotiation of purchase prices from suppliers. The most significant currencies are EUR, USD, SEK and DKK. The risk horizon, i.e. the time it takes to compensate for negative exchange rate fluctuations, is to a great extent controlled by price-adjustment opportunities in the state wine monopolies in the Nordic region. In Norway this takes place every four months and in Sweden every six months. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions.

All of the Group's non-current borrowing is undertaken in SEK, as a natural hedging of cash flow in the form of dividends in SEK.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate in the companies' functional currencies.

The Group's presentation currency is NOK. The Group is therefore further exposed to currency risk on translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged. As at 31.12.2019, the net translation difference associated with the majority's equity was positive at NOK 303.8 million, corresponding to a negative change in 2019 of NOK 4.7 million (positive by NOK 308.5 million at the end of 2018).

The table below shows the Group's purchase of non-functional foreign exchange during 2019.

	Purchase of currency 2019			
Figures in 1,000 (in the relevant currency)	**Spot**	**Forward**	**Total**	**Proportion hedged via forward contracts**
EUR	91,908	14,288	106,196	13.5%
USD	14,581	112	14,693	0.8%
AUD	2,117	0	2,117	0.0%
GBP	1,125	340	1,465	23.2%

	Purchase of currency 2018			
Figures in 1,000 (in the relevant currency)	**Spot**	**Forward**	**Total**	**Proportion hedged via forward contracts**
EUR	90,399	11,200	101,599	11.0%
USD	11,735	150	11,885	1.3%
AUD	1,088	60	1,148	5.2%
GBP	1,365	320	1,685	19.0%
SEK	0	190	190	100.0%

At the end of the year, the Group had the following forward contracts related to the logistics business, which were booked at fair value with value changes via the profit or loss. This represents financial hedging and the Group does not use hedge accounting.

31.12.2019

Forward contracts (NOK 1,000)	**Currency**	**Currency amount**	**Value in NOK - end of period**	**Forward value in NOK**	**Fair value in NOK**	**Maturity**
Purchase contracts	EUR	1,850	18,279	18,708	-429	2020
Purchase contracts	USD	25	220	228	-8	2020
Purchase contracts	GBP	30	348	336	12	2020
Total					**-425**	

31.12.2018

Forward contracts (NOK 1,000)	**Currency**	**Currency amount**	**Value in NOK - end of period**	**Forward value in NOK**	**Fair value in NOK**	**Maturity**
Purchase contracts	EUR	1,600	15,912	15,308	604	2019
Purchase contracts	GBP	50	553	534	20	2019
Total					**624**	

All forward contracts are recognised at fair value as of the close of the financial year.

Sensitivity to exchange rate fluctuation:
The following table shows the Group's sensitivity to changes in the most important exchange rates, if all other variables remain constant.

The effect on the Group's profit before tax is calculated as changes in the fair value of monetary assets and liabilities as at 31.12.2019 in foreign currency (non-functional currency). This includes hedging derivatives recognised at fair value with value changes via profit or loss.

Figures in NOK 1,000	Change in exchange rate	Effect on profit before tax
EUR	5%	1,467
EUR	-5%	-1,467
SEK	5%	7,257
SEK	-5%	-7,257
DKK	5%	-4,113
DKK	-5%	4,113

The Group's exposure to other currencies is insignificant as at 31.12.2019.

Categorisation of financial assets and liabilities:

Assets

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial instruments at amortised cost	Financial instruments at fair value via total comprehensive income (OCI).	Total book value of financial assets, 31.12	Prepaid costs	Total in the statement of financial position 31.12.
Other investments in shares	0	0	249	249	0	249
Other non-current receivables	0	506	0	506	0	506
Trade receivables	0	1,278,500	0	1,278,500	0	1,278,500
Other receivables	0	71,198	0	71,198	42,764	113,962
Bank deposits	0	205,029	0	205,029	0	205,029
Total financial assets 31.12.2019	**0**	**1,555,233**	**249**	**1,555,482**	**42,764**	**1,598,246**

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial instruments at amortised cost	Financial instruments at fair value via total comprehensive income (OCI).	Total book value of financial assets, 31.12	Prepaid costs	Total in the statement of financial position 31.12.
Other investments in shares	0	0	200	200	0	200
Other non-current receivables	0	1,581	0	1,581	0	1,581
Trade receivables	0	1,260,709	0	1,260,709	0	1,260,709
Other receivables	624	59,966	0	60,590	19,392	79,982
Bank deposits	0	282,594	0	282,594	0	282,594
Total financial assets 31.12.2018	**624**	**1,604,850**	**200**	**1,605,674**	**19,392**	**1,625,066**

Liabilities

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial instruments at amortised cost	Financial instruments at fair value via total comprehensive income (OCI).	Total book value of financial liabilities, 31.12	Provision for accrued costs and statutory obligations	Total in the statement of financial position 31.12.
Debt to financial institutions	0	703,829	0	703,829	0	703,829
Lease obligations	0	1,305,215	0	1,305,215	0	1,305,215
Liabilities at fair value	69,343	0	0	69,343	0	69,343
Other non-current liabilities	0	464	0	464	0	464
Trade payables	0	570,499	0	570,499	0	570,499
Other current liabilities	425	15,042	0	15,467	173,174	188,641
Total financial liabilities 31.12.2019	**69,768**	**2,595,049**	**0**	**2,664,817**	**173,174**	**2,837,991**

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial instruments at amortised cost	Financial instruments at fair value via total comprehensive income (OCI).	Total book value of financial liabilities, 31.12	Provision for accrued costs and statutory obligations	Total in the statement of financial position 31.12.
Debt to financial institutions	0	892,958	0	892,958	0	892,958
Liabilities at fair value	74,218	0	0	74,218	0	74,218
Other non-current liabilities	0	647	0	647	0	647
Trade payables	0	576,783	0	576,783	0	576,783
Other current liabilities	0	15,960	0	15,960	169,296	185,256
Total financial liabilities 31.12.2018	**74,218**	**1,486,348**	**0**	**1,560,566**	**169,296**	**1,729,862**

Fair value hierarchy

The Group uses the following hierarchy to determine and report the fair value of financial instruments:
Level 1: Listed (unadjusted) prices in active markets
Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.
Level 3: Techniques for calculation of fair value based on other than observable market data.

As at 31 December 2019, the Arcus Group had the following financial liabilities at fair value in the statement of financial position:

31.12.2019	Level 1	Level 2	Level 3	Book value as at 31.12.
Other investments in shares	0	0	249	249
Total assets	**0**	**0**	**249**	**249**

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value through profit or loss	0	0	69,343	69,343
Currency derivatives	0	425	0	425
Total liabilities	**0**	**425**	**69,343**	**69,768**

31.12.2018	Level 1	Level 2	Level 3	Book value as at 31.12.
Other investments in shares	0	0	200	200
Currency derivatives	0	624	0	624
Total assets	**0**	**624**	**200**	**824**

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value through profit or loss	0	0	74,218	74,218
Total liabilities	**0**	**0**	**74,218**	**74,218**

There have been no reclassifications between Level 1 and Level 2 during the period. Neither have there been any transfers out of Level 3 during the period.

Reconciliation of liabilities (Level 3):
Liabilities classified at Level 3 are related to options for the purchase of non-controlling interests. Further information on these obligations is presented in Note 22.

	Book value 31.12.2018	Used/exercised 2019	Provision made/ issued 2019	Value changes 2019	Recognised interest 2019	Translation differences	Book value 31.12.2019
Liabilities at fair value	74,218	0	0	-3,364	196	-1,707	69,343
Total	**74,218**	**0**	**0**	**-3,364**	**196**	**-1,707**	**69,343**

	Book value 31.12.2017	Used/exercised 2018	Provision made/ issued 2018	Value changes 2018	Recognised interest 2018	Translation differences	Book value 31.12.2018
Liabilities at fair value	0	0	67,874	2,560	104	3,680	74,218
Total	**0**	**0**	**67,874**	**2,560**	**104**	**3,680**	**74,218**

Capital management
The Group's overall objective is that the Group at all times has sufficient liquidity to fulfil its obligations in both the short and long term. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of revenue development and capital binding, and through continuous assessment of alternative sources of finance. Unutilised credit opportunities are described in Note 17.

As far as possible, the Group wishes to have flexibility for its liquid assets in relation to day-to-day operations. The Group achieves this through a Group cash pool system with a drawing facility that as of 31.12.2019 is managed by Arcus ASA.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. The Group works according to the objective that the net interest-bearing debt may not exceed 2.5 times EBITDA.

There were no changes in the Group's non-current debt financing during 2019. At the end of 2019, the agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this loan clause and reports to the bank on a quarterly basis. As at 31.12.2019 the Group was well within the required ratio.

In connection with the introduction of IFRS 16 concerning leases as from 1 January 2019, the Group's reported net interest-bearing debt and adjusted EBITDA have changed significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to the previous model, irrespective of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms has not been affected by the introduction of IFRS 16.

NOK million	**2019**	**2018**
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	703,829	874,895
Current interest-bearing debt to credit institutions	0	18,063
Book value of capitalised front-end fee	3,121	4,824
Non-current lease obligations	1,151,016	0
Current lease obligations	154,199	0
Bank deposits and other cash and cash equivalents	-205,029	-282,594
Net interest-bearing debt	**1,807,136**	**615,188**

NOTE 2 SEGMENT INFORMATION

2019 *Figures in NOK 1,000*	Spirits	Wine	Logistics	Other	Eliminations	Group
Sales revenues – external	811,900	1,574,058	282,975	0	41,441	2,710,374
Sales revenue between the segments	0	3,711	10,637	0	-14,348	0
Other operating revenue – external	9,694	19,930	20,170	2,609	0	52,403
Other operating revenue between the segments	153,985	5,659	14,287	174,224	-348,155	0
Total revenue	**975,579**	**1,603,358**	**328,069**	**176,833**	**-321,062**	**2,762,777**
Net gain on sale of fixed assets	-21	-7	77	-38	0	11
Cost of sales	-491,295	-1,238,298	0	0	128,480	-1,601,113
Salaries and other personnel costs	-127,777	-97,837	-156,030	-57,576	0	-439,220
Other operating expenses	-211,852	-97,298	-156,716	-149,021	285,444	-329,443
Share of profit from TS and FKV	4,251	0	-192	0	0	4,059
EBITDA, adjusted	**148,885**	**169,918**	**15,208**	**-29,802**	**92,862**	**397,071**
Other income and expenses	-2,004	-8,827	-1,583	-7,330	0	-19,744
Depreciation and amortisation	-25,254	-3,053	-11,455	-5,981	-73,830	-119,573
Operating profit	**121,627**	**158,038**	**2,170**	**-43,113**	**19,032**	**257,754**
Net financial profit/loss	**-17,223**	**-12,912**	**928**	**-10,178**	**-45,900**	**-85,285**
PROFIT BEFORE TAX	**104,404**	**145,126**	**3,098**	**-53,291**	**-26,868**	**172,469**

The Group reports operational lease agreements as these are reported to the management, which entails that the lease charge is reported as an operating cost in the segments. See also Note 13 concerning lease agreements.

2018

Figures in NOK 1,000	Spirits	Wine	Logistics	Other	Eliminations	Group
Sales revenue – external	766,774	1,603,260	261,082	0	41,499	2,672,615
Sales revenue between the segments	-4,327	1,455	11,296	0	-8,424	0
Other operating revenue – external	8,294	17,185	23,576	1,531	0	50,586
Other operating revenue between the segments	148,857	2,846	11,785	173,533	-337,021	0
Total revenue	**919,598**	**1,624,746**	**307,739**	**175,064**	**-303,946**	**2,723,201**
Net gain on sale of fixed assets	185	0	180	0	0	365
Cost of sales	-447,962	-1,244,346	0	0	115,002	-1,577,306
Salaries and other personnel costs	-123,803	-96,882	-146,321	-59,638	0	-426,644
Other operating expenses	-205,756	-102,011	-148,861	-141,646	188,944	-409,330
Share of profit from TS and FKV	2,311	0	0	0	0	2,311
EBITDA, adjusted	**144,573**	**181,507**	**12,737**	**-26,220**	**0**	**312,597**
Other income and expenses	-1,768	-11,838	-381	8,691	0	-5,296
Depreciation and amortisation	-24,744	-2,586	-11,261	-6,235	-5,179	-50,005
Operating profit	**118,061**	**167,083**	**1,095**	**-23,764**	**-5,179**	**257,296**
Net financial profit/loss	**-7,938**	**-18,595**	**-221**	**-8,993**	**-369**	**-36,116**
PROFIT BEFORE TAX	**110,123**	**148,488**	**874**	**-32,757**	**-5,548**	**221,180**

The Group does not present the segments' assets or liabilities as this is not part of the Group's internal reporting either.

For information regarding pricing associated with sales between the segments, see Note 22.

NOTE 3 REVENUES

REVENUE RECOGNITION PRINCIPLES

Sale of goods (wine and spirits)

The Group's sales revenue mainly consists of revenue related to the Scandinavian retail monopolies, which are the Wine and Spirits business' largest customers. The Group also has sales to Horeca (Hotel, Restaurant, Catering) customers, wholesalers and sales to DFTR (Duty Free Travel Retail) customers.

The Wine and Spirits business in the Group only sell physical products in the form of wine and spirits products. The Group's sale of goods is recognised as revenue a given point in time when fulfilment of related delivery obligations has taken place. The timing corresponds to when the goods are delivered at the customer's agreed upon delivery point, where the risk and control of the goods are transferred to the customer. Revenue is presented as sales revenue within the Wine and Spirits segment.

Sale of logistics services

Sale of logistics services consists of logistics and distribution services to agents and importers in Norway who supply alcoholic beverages to the Norwegian market. The logistics services consist of several service elements:

- Incoming goods flow (ordering, customs clearance and control of goods on receipt).
- Cooperation with Vinmonopolet, Horeca, wholesalers and grocery traders on distribution solutions and negotiations with customers.
- Market activities are arranged for cooperation partners, in consultation with these.
- Outgoing goods flows (customer centre, order receipt, licence control, processing of excise duties, filling orders from customers, goods picking and assembly, physical distribution or preparation for collection).
- Invoicing to customers, credit assessments and follow-up, and system for discounts and bonuses from/to cooperation partners to customers.
- Invoicing and reporting of excise duties.
- Stock accounting

The revenue from logistics services is recognised at a given point in time when the fulfilment of the related delivery obligations has taken place, which corresponds to the date of fulfilment of the delivery obligations related to the sale of products in the wine and spirits business. Revenue from logistics services is presented as sales revenue within the Logistics segment.

The Logistics business area recognises its revenue on a net basis after deduction of excise duties, cost of sales and stock handling costs. The assessment is based on how the main revenue source is related to the delivery of the total distribution services and that the risk concerning the flow of goods is the cooperation partner's liability.

Sale of other activity-based revenue

The Logistics business area also delivers other activity-based services, comprising:

- Incoming transport from producer to country
- Lease of warehouse for unsold goods
- Pallet building (conversion from large EUR pallets to smaller quarter pallets)
- Destruction services

The revenue is presented as other operating revenue and is recognised on the fulfilment of the delivery obligations, which corresponds to when the services are delivered to the customer.

Sale of contract bottling services

The Spirits business area delivers bottling services to internal and external wine companies.

The revenue related to external wine companies is presented as other operating revenue and is recognised at a given time when the delivery obligations are fulfilled. The time corresponds to when the risk and control of the bottled products is transferred to the customer.

Discounts

Most of the customer agreements, apart from the agreements with the retail monopolies, also include retrospective clauses concerning variable transfers back to the customers after the actual delivery date. This may be volume-based discounts and bonus received by the customer on the basis of the customer's sale to end-customers during a given period, or other contractual variable bonuses to a procurement group based on either volumes sold, or sales amounts for the member enterprises. These retrospective variable transfers are estimated and recognised when the delivery obligation has been fulfilled in relation to the customer, and are presented as a reduction of the sales remuneration.

Costs of outgoing freight

In the Group's consolidated income statement, freight costs are recognised as a cost of sales, based on an assessment that the wine and spirits business are the principals. This is based on how contracts with customers require delivery to customers' warehouses. This corresponds to the Group's assessment that the distribution company is the agent in this respect, and thereby books its distribution revenue on a net basis.

Different principles are applied in the Group's segment reporting, whereby costs related to outgoing freight are recognised as a reduction of operating revenue.

Excise duties and value added tax

All revenue is presented net after deductions for invoiced excise duties (alcohol duties) and value added tax.

MARKET AND PRODUCTS

Spirits

The primary revenue source in Spirits is the sale of spirits products, of which most of the sales revenue is from our home produced products, for which the Group is also the owner of the brand. In addition, this segment also has sales revenue from a good number of agencies, of which the products may be home produced or imported items that are ready for sale, but where the brand is owned by other external operators. The most important spirits categories are Aquavit, Bitter, Vodka and Cognac.

In geographical terms, Norway, Denmark and Sweden are the most important markets, but the Group also has sales to Germany, the USA, Finland and DFTR (Duty Free Travel Retail), as well as minor sales to other markets.

Wine

The primary revenue source for Wine is sales of wine products, whereby most of the sales revenue is from agency brands, whereby the Group imports items that are ready for sale. The Group also has considerable sales revenue from sales of own Wine brands, with wine being mixed and bottled in the Group's own production facility.

In geographical terms, the Group has sales revenue from Wine in Norway, Sweden and Finland, and to a small extent from DFTR.

Logistics

The Group's Logistics business comprise its subsidiary, Vectura, whose primary revenue source is comprehensive logistics services for both internal and external suppliers.

Other operating revenue

Other operating revenue primarily comprises revenue other than the primary revenue source. For the Spirits segment this consists mainly of contract bottling, and for the Wine segment glass sales, while for the Logistics segment this to a great extent comprises other activity-based revenue, including pallet space hire, export handling, destruction handling and quarter pallet production.

The following table presents the Group's total external revenue:

	2019			2018		
Revenue by market - Group:	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	1,099,201	25,494	1,124,695	1,048,786	27,615	1,076,401
Sweden	1,054,973	19,929	1,074,902	1,089,855	15,582	1,105,437
Finland	225,303	2,366	227,669	221,790	3,674	225,464
Denmark	156,048	0	156,048	145,077	-116	144,961
Germany	56,504	358	56,862	54,238	1,484	55,722
USA	4,572	0	4,572	6,729	31	6,760
DFTR	111,719	0	111,719	104,287	0	104,287
Other international	2,054	4,256	6,310	1,853	2,316	4,169
Total operating revenue	**2,710,374**	**52,403**	**2,762,777**	**2,672,615**	**50,586**	**2,723,201**

The tables below present the segments' total external and internal revenue:

	2019			2018		
Revenue by market - Spirits:	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	306,107	157,044	463,151	302,073	149,186	451,259
Sweden	139,830	2,327	142,157	125,130	4,589	129,719
Finland	46,284	39	46,323	34,313	0	34,313
Denmark	153,535	0	153,535	143,220	-116	143,104
Germany	56,504	358	56,862	54,238	1,484	55,722
USA	4,572	0	4,572	6,729	31	6,760
DFTR	102,669	0	102,669	94,552	0	94,552
Other international	2,054	4,256	6,310	2,192	1,977	4,169
Total operating revenue	**811,555**	**164,024**	**975,579**	**762,447**	**157,151**	**919,598**

	2019			2018		
Revenue by market - Wine	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	510,728	0	510,728	479,936	0	479,936
Sweden	883,525	20,473	903,998	932,148	16,018	948,166
Finland	174,466	5,116	179,582	183,235	3,674	186,909
DFTR	9,050	0	9,050	9,396	339	9,735
Total operating revenue	**1,577,769**	**25,589**	**1,603,358**	**1,604,715**	**20,031**	**1,624,746**

	2019			2018		
Revenue by market - Logistics:	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	293,612	34,457	328,069	272,378	35,361	307,739
Total operating revenue	**293,612**	**34,457**	**328,069**	**272,378**	**35,361**	**307,739**

Significant customer relationships

The Group has significant customer relationships with Vinmonopolet in Norway and Systembolaget in Sweden, which each represent more than 10 percent of the Group's total operating revenue.

Total operating revenue from Vinmonopolet was approximately NOK 739 million in 2019, of which NOK 280 million in Spirits and NOK 459 million in Wine. In 2018, the corresponding total was approximately NOK 711 million, of which NOK 281 million in Spirits and NOK 430 million in Wine.

Total operating revenue from Systembolaget was approximately NOK 911 million in 2019, of which NOK 132 million in Spirits and NOK 778 million in Wine. In 2018, the corresponding total was approximately NOK 932 million, of which NOK 115 million in Spirits and NOK 817 million in Wine.

NOTE 4 INFORMATION ON CASH FLOWS

The Group prepares the statement of cash flows according to an indirect method. Below is a specification of cash flow effects which are not presented elsewhere in the Notes.

EFFECTS OF CASH FLOWS FROM OPERATIONS:

Pension costs and other provisions without cash effect

Pension costs without cash effect are the change in pension obligations in the statement of financial position, adjusted for obligations from acquisition or sale, and the effects of booked estimate deviations booked to total comprehensive income (OCI).

Figures in NOK 1,000	Note	2019	2018
Book value pension obligations at the beginning of the year	8	-21,077	-30,552
Estimate deviations booked to the total comprehensive income	8	-1,988	9,900
Book value pension obligations at the end of the year	8	23,724	21,077
Pension costs without cash effect		**659**	**425**
Book value other provisions for obligations at the beginning of the year	20	-92	-320
Book value other provisions for obligations at the end of the year	20	0	92
Costs from other provisions without cash effect		**-92**	**-228**
Total pension costs and other provisions without cash effect		**567**	**197**

Value changes without cash effect

Below is a specification of value changes included in the statement of income, but without cash effect.

Figures in NOK 1,000	Note	2019	2018
Value change in options for the purchase of non-controlling interests	9.18	-3,365	2,560
Costs related to share-based remuneration without cash effect	7	394	7,603
Amortisation of front-end fees for interest-bearing debt	19	1,618	1,623
Value change, forward contracts	9	1,049	369
Total value changes without cash effect		**-304**	**12,155**

Profit or loss on the sale of fixed assets and intangible fixed assets

The accounting profit or loss on the sale of fixed assets and intangible fixed assets has no cash flow effect, which is thereby reversed from the operational activities in the indirect method. The sales proceeds related to these divestments is the Group's cash flow effect under investment activities.

Figures in NOK 1,000	Note	2019	2018
Book value of sold fixed assets and intangible fixed assets	11.12	135	0
Sales proceeds from sold fixed assets and intangible fixed assets		146	365
Profit (-)/loss (+) on sale of fixed assets and intangible fixed assets		**-11**	**-365**

Unrealised agio effects

Unrealised gains are related to translation differences for working capital items in foreign subsidiaries with a functional currency other than the Group's functional currency, and statement of income items related to the currency translation of loans booked in other currencies than the functional currency.

Figures in NOK 1,000	Note	2019	2018
Translation differences for working capital items		-2,527	1,195
Total unrealised agio effects		**-2,527**	**1,195**

Changes in working capital

Changes in working capital are the change in working capital items in the statement of financial position, adjusted for working capital items from the acquisition or sale of companies during the period.

Figures in NOK 1,000	Note	2019	2018
Book value of inventories at the beginning of the year	15	441,117	410,759
Book value of inventories at the end of the year	15	-486,612	-441,117
Change in inventories		**-45,495**	**-30,358**

Figures in NOK 1,000	Note	2019	2018
Book value of trade receivables at the beginning of the year		1,260,709	1,432,164
Addition of trade receivables on acquisition of companies during the year	25	1,449	0
Book value of trade receivables at the end of the year		-1,278,500	-1,260,709
Change in trade receivables		**-16,342**	**171,455**

Figures in NOK 1,000	Note	2019	2018
Book value of trade payables at the beginning of the year		-576,783	-603,884
Addition of trade payables on acquisition of companies during the year	25	-40	0
Book value of trade payables at the end of the year		570,499	576,783
Change in trade payables		**-6,324**	**-27,101**

Figures in NOK 1,000	Note	2019	2018
Book value of other current receivables at the beginning of the year	14	74,958	85,902
Book value of other current receivables at the end of the year	14	-97,556	-74,958
Change in other current receivables		**-22,598**	**10,944**
Book value of other current liabilities at the beginning of the year	16	-1,113,785	-1,124,105
Addition of other current liabilities on acquisition of companies during the year	25	-432	0
Book value of other current liabilities at the end of the year	16	1,147,913	1,113,785
Change in other current liabilities		**33,696**	**-10,320**
Change in other current assets and other liabilities		**11,098**	**624**

EFFECTS OF CASH FLOWS FROM INVESTMENT ACTIVITIES

Payments on acquisition of other financial investments

In 2019, the entire amount concerns a payment related to an ownership interest in a new associated company, Beverage Link AS. In 2018, the entire amount concerns a payment related to an ownership interest in a new associated company, Smakeappen AS.

Figures in NOK 1,000	Note	2019	2018
Cash flow from changes in ownership interests in associated company.	23	-15	-119
Payments on acquisition of other financial investments		**-15**	**-119**

EFFECTS IN CASH FLOWS FROM FINANCING ACTIVITIES:

Payouts in equities-based incentive programme

In 2019, the temporary incentive programme with distribution of matching equities was settled. Payments related to the purchase of the actual shares are stated as purchase of own shares during 2018 and 2019, and stated on a separate line. The cash flow related to payments in the share programme on this line are related entirely to the employer tax on redeemed matching equities.

Figures in NOK 1,000	Note	2019	2018
Book value of payable employer tax related to share-based incentive programmes at the beginning of the year	7	-2,523	-1,643
Recognised change in employer tax in the period	7	-19	-880
Book value of payable employer tax related to share-based incentive programmes at the end of the year	7	417	2,523
Cash flow related to share-based incentive programme during the period		**-2,125**	**0**

Interest cost paid during the period

The Group has quarterly interest payment dates, so that the Group's recognised interest payable coincides with the interest paid during the year. The difference between recognised interest payable and interest paid is related to calculated interest costs relating to liabilities at fair value recognised in the statement of income.

Figures in NOK 1,000	Note	2019	2018
Interest paid to credit institutions	9	-47,462	-37,302
Interest paid related to lease agreements	9	-49,852	0
Interest paid during the period		**-97,314**	**-37,302**

Payment of dividend

Dividend paid in 2019 is mainly related to dividend to shareholders in Arcus ASA (TNOK 112,872). Other dividend is to minority shareholders in individual subsidiaries within the wine activity. This dividend is specified in Note 26.

NOTE 5 OTHER OPERATING EXPENSES

Figures in NOK 1,000	2019	2018
Sales and marketing costs	-115,956	-122,518
Logistics costs	-65,645	-64,531
Rent[1]	-2,518	-88,692
Property operation and maintenance	-78,542	-63,406
Travel expenses	-17,762	-15,874
Consultants and external outsourcing of services	-48,767	-46,949
Other costs	-10,862	1,858
Total other operating expenses	**-340,052**	**-400,112**
Of which effects which are included in Other income and expenses in the statement of income	10,609	-9,218
Total other operating expenses as presented in Other operating expenses in the statement of income	**-329,443**	**-409,330**

1. The rent cost item is affected significantly by the implementation of IFRS 16 concerning lease agreements from 2019, of which most of the costs from 2019 are depreciation and interest costs.

Other income and expenses:
Other income and expenses comprises significant positive and negative non-recurring items and restructuring costs. The main purpose of this item is to show these significant non-recurring and non-periodic items, so that the development and comparability of the ordinary items presented in the statement of income are more relevant for the business. See also the section concerning alternative profit measurement (APM).

Figures in NOK 1,000	2019	2018
Personnel policy and other organisational measures[1]	-9,135	-14,514
Other transaction costs	-726	-1,246
Other non-recurring items[2]	-9,883	10,464
Total other income and expenses	**-19,744**	**-5,296**

1. **Personnel policy and other organisational measures:** Costs related to organisational and staffing adjustments in order to meet the restructuring need with new work processes and improved profitability, as well as costs related to a temporary incentive programme with matching shares to selected key employees in conjunction with the IPO in 2016. This programme expired in Q1 2019, and further information about the programme is presented in Note 7.

2. **Other non-recurring items:** In 2019, other non-recurring items mainly comprise consultant and attorney fees related to projects outside ordinary operations in the Group, including possible structural measures. The positive non-recurring effect in 2018 mainly concerns the reversal of a non-utilised provision for an estimated liability related to the previous sale of a property some years back in time.

Auditors' remuneration
The auditors' fees are specified below. The fees cover the Group auditor, EY, as well as other auditors of Group subsidiaries.

Figures in NOK 1,000	2019	2018
Statutory audit	3,262	2,926
Other financial auditing	51	91
Other certification services	45	139
Tax advisory services	493	1,055
Other non-auditing services	451	24
Total remuneration to the auditors	**4,302**	**4,235**

All amounts are exclusive of VAT.

Total audit fees for the Group include fees to parties other than the Group auditor of TNOK 1,884 for 2019 and TNOK 1,252 for 2018.

NOTE 6 SALARIES AND OTHER PERSONNEL COSTS

Figures in NOK 1,000	2019	2018
Salaries including holiday pay	-307,481	-296,535
Social security costs	-66,171	-61,005
Pension costs including social security costs	-31,964	-32,057
Other personnel costs	-42,739	-51,561
Total salaries and other personnel costs	**-448,355**	**-441,158**
Of which effects included under Other income and expenses in the statement of income (see Note 5)	9,135	14,514
Total salaries and personnel costs as presented in the statement of income	**-439,220**	**-426,644**
Average number of FTEs employed during the year	426	424

Remuneration to senior executives

The terms and conditions for the Group CEO are set by the Board of Directors, which also takes decisions in principle concerning the Group's terms and conditions policy and compensation schemes for other employees. The Board has a remuneration committee which prepares remuneration proposals for decision by the Board. The committee comprises two members of the Board elected by the shareholders. The administration prepares cases for the remuneration committee and the Board.

In 2019, the Group Management was covered by the Group's annual bonus system, a temporary share programme (matching shares) that was established in conjunction with the IPO in 2016 and concluded in Q1 2019, as well as an option programme adopted at the Annual General Meetings, under which share options were issued in 2017, 2018 and 2019. The Group CEO has an ordinary bonus agreement which, under certain conditions, will release payment of up to five months' salary, while other members of the Group Management can receive up to four months' salary.

The Group CEO and other members of the Norwegian Group Management have an ordinary occupational pension scheme with Storebrand, which entails 5 percent pension contributions for salaries of 0 to 7.1G, and 11 percent for salaries from 7.1 to 12G. The Group CEO also has a supplementary pension agreement that gives pension earnings of 15 percent of salaries above 12G. The pension entitlement from the supplementary pension agreement is capitalised annually in the consolidated statement of financial position and the return is based on the return from the Storebrand Balansert pension fund. Svante Selling has a defined contribution pension scheme for which the contribution rate is 25 percent of the salary, while Petra Thorén has a pension scheme with a contribution rate of 18.15 percent of the salary.

Salaries and other remuneration to the Group Management in 2019 are presented in the table below: Benefits in kind in 2019 are to a great extent related to the redemption of a temporary incentive scheme, with redemption of matching shares in 2019. Benefits from share-based schemes to managerial employees are specified in Note 7.

Figures in NOK 1,000 Local currency	Currency	Salary	Bonus earned in 2019	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	3,103	0	1,954	486
Sigmund Toth	NOK	2,031	200	1,021	89
Erlend Stefansson	NOK	2,145	0	1,296	89
Erik Bern	NOK	1,964	0	610	89
Bjørn Delbæk[1]	NOK	1,034	0	483	60
Jan-Erik Nilsen[2]	NOK	423	0	45	30
Per Bjørkum	NOK	1,601	0	538	89
Eirik Andersen	NOK	1,980	350	484	89
Svante Selling	SEK	2,387	0	8	795
Petra Thorén[3]	EUR	13	0	1	3
Christian Granlund[4]	NOK	1,581	0	136	74
Roar Ødelien[5]	NOK	300	0	28	15

1. Bjørn Delbæk has chosen to resign as HR Director on 1 September 2019. The payments represent eight months in the Group Management.
2. Jan-Erik Nilsen took up the position as HR Director as from 1 September 2019. The payments represent four months in the Group Management.
3. Petra Thorén took up the position as head of the Finnish wine business on 1 December 2019. The payments represent one month in the Group Management.
4. Christian Granlund resigned as CEO of Vectura in 2019 to take up new challenges outside the Group. The payments represent ten months in the Group Management.
5. Roar Ødelien took up the position as CEO of Vectura as from 1 November 2019. The payments represent two months in the Group Management.

Salaries and other remuneration to the Group Management in 2018:

Figures in NOK 1,000 Local currency	Currency	Salary	Bonus earned in 2018	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	3,118	0	234	332
Sigmund Toth	NOK	1,897	0	152	87
Erlend Stefansson	NOK	2,144	0	191	87
Erik Bern	NOK	1,960	0	196	87
Bjørn Delbæk	NOK	1,671	0	191	87
Per Bjørkum	NOK	1,602	0	196	87
Eirik Andersen[1]	NOK	475	667	42	22
Thomas Patay[2]	NOK	1,731	0	143	65
Claes Lindquist[3]	SEK	208	0	5	72
Svante Selling[4]	SEK	1,780	251	120	442
Christian Granlund	NOK	1,777	0	167	87

1. Eirik Andersen joined the Group Management on 1 October 2018, and the payments represent three months in the Group Management.
2. Thomas Patay resigned from the Group Management on 30 September 2018, and the payments represent nine months in the Group Management.
3. Claes Lindquist was part of the Group Management up to 31 January 2018, when Svante Selling joined the Group Management. The payments stated represent one month in the Group Management. Claes Lindquist resigned on 31 March 2018.
4. Svante Selling took up the position on 1 February 2018, and the payments represent 11 months in the Group Management.

If the CEO gives notice of termination, he is subject to six months' notice. If notice of termination is given by the Group, the Group CEO will be entitled to 12 months' severance pay, and during this period will not be able to take employment in competing companies.

Concerning the other Group Management members, Sigmund Toth, Erlend Stefansson, Erik Bern, Eirik Andersen, Svante Selling and Roar Ødelien are subject to six months' notice of termination, while Per Bjørkum and Bjørn Delbæk are subject to three months' notice of termination.

Concerning the other Group Management members, Erik Bern and Eirik Andersen are subject to a 12-month non-competition clause, while Sigmund Toth, Jan-Erik Nilsen, Per Bjørkum, Erlend Stefansson, Svante Selling, Petra Thorén and Roar Ødelien are subject to a six-month non-competition clause. They all have an agreement concerning severance pay during the period to which the non-competition clause applies, if it is activated.

No loans or security have been provided for the Group CEO, other Group Management or members of the Board of Directors.

The Group Management's holdings of ordinary shares in Arcus ASA are stated in Note 21.

Declaration of the Board of Directors regarding the fixing of salaries and other remuneration to executive personnel
Pursuant to Section 6-16a of the Norwegian Public Limited Liability Companies Act, the Board of Directors shall prepare a declaration on the fixing of salaries and other remuneration to executive personnel.

Furthermore, under Section 5-6(3) of the Norwegian Public Limited Liability Companies Act, an advisory vote must be held at the General Meeting on the Board of Directors' guidelines for fixing remuneration to executive personnel for the coming financial year, see (ii) below. In so far as the guidelines concern share-based incentive arrangements, these must also be approved by the general meeting, see (iii) below.

(i) Salaries and other remuneration to executive personnel
Salaries and other remuneration to executive personnel for the preceding financial year are presented in Notes 6, 7 and 8 to the annual financial statements for Arcus ASA.

(ii) Guidelines for the fixing of salaries and other remuneration to executive personnel
With regard to guidelines for fixing salaries and other remuneration to executive personnel in the coming financial year, the Board of Directors will present the following guidelines to the General Meeting in 2020 for an advisory vote:

The purpose of Arcus' overall compensation policy is to attract personnel with the competence that the Group requires, to further develop and retain employees with key expertise, and to promote a long-term perspective and continuous improvement with a view to achieving Arcus' business goals. As an overall principle, Arcus' policy must be competitive, but not market-leading, in terms of the total compensation package. The total compensation may consist of the following elements:

(a) Fixed elements – Basic salary, pension, etc.
Arcus uses internationally recognised job assessment systems (Hay) to find the "right" level for the position and the fixed salary. Positions are assessed in relation to their local market (country) and a pay range in relation to the median. The employee's area of responsibility, results and performance determine where he or she is placed on the salary scale.

Arcus has a defined-contribution occupational pension plan for employees in Norway. The contribution rate is 5 percent for salaries up to 7.1G and 11 percent for salaries between 7.1G and 12G (as from 1.5.2019 1G is NOK 99,858). The CEO is the only employee who currently has an occupational pension for salaries above 12G and the contribution rate is 15 percent. There are no arrangements or agreements regarding an early retirement age for the Group Management other than the national insurance scheme and the AFP arrangement, which allow all employees a flexible retirement age starting at the age of 62. All employees in Norway are subject to a statutory age limit of 72, but the age limit in the Norwegian part of the Group is contractually set at 70, which also applies to the Group Management.

The CEO of Vectura AS has the same pension scheme as the Group Management. Managers in Vingruppen i Norden AB (Sweden) adhere to the Swedish regulations, managers in Vingruppen OY in Finland adhere to the Finnish regulations, and managers in Denmark adhere to the Danish regulations. The pension scheme in Sweden. Finland and Denmark has different rules and higher contribution rates than in Norway.

In addition to the above, the Group provides benefits such as a company car and company telephone, and other limited benefits in kind.

(b) Variable elements – annual bonus
Arcus ASA has an annual bonus system. The bonus system is related to the target result for the Group and/or own business area/subsidiary, and for the Group Management and other managerial employees consists of a financial element (70 or 60 percent) and an individual element (30 or 40 percent) connected to concrete and defined KPIs.

All bonuses are self-financed. The maximum bonus achievable for members of the Group Management is 30 percent of their annual salary (four monthly salaries), although the Group CEO may receive a maximum annual bonus of five monthly salaries. In addition to the Group Management, approximately 45 managers and key staff participate in an annual bonus programme, but the criteria vary and these staff members may receive a bonus of between one and three monthly salaries.

The bonus programme for 2020 is adjusted slightly from 2019, but comprises the same components as in previous years, with the results of the Group and/or subsidiary as the key target (financial part). Individual bonuses (personal targets) are a key element of the programme.

Executives of Vectura AS adhere to the same guidelines as the Group Management, but based on the company's EBIT Again in 2020, executives of Vingruppen i Norden AB and executives of Vingruppen OY in Finland adhere to a staggered bonus model, based on the company's EBIT, with maximum five monthly salaries.

(iii) Share-based incentive programmes
The Annual General Meetings in 2017, 2018 and 2019 approved an option-based long-term incentive scheme for the Group Management and for certain additional managers and key persons. The primary objective of the programme is to provide executive personnel with incentives to generate long-term and continuous success and value creation for the shareholders. Reference is made to the report concerning the option scheme and the share programme for all employees described in appendix 4 to the notice convening the General Meeting, and the Board of Directors' proposal for a continuation of these programmes.

Arcus ASA has managers/key persons in several wine companies who are minority owners, and this mainly concerns the general manager. This model has been a success for the Group, in the form of well-motivated managers who have achieved good results.

It is appropriate to continue to allow the general manager of a subsidiary, based on an individual assessment, to be a minority owner, with an ownership interest limited to 9.9 percent.

Such a model is intended to encourage an entrepreneurship culture, sound business acumen and internal competition between companies which, in turn, can increase the profitability of the company and of the employee. Financing must primarily take place as the employee's contribution of equity.

On starting up or acquiring a new company, greater flexibility (up to 30 percent ownership interest) must be accepted in terms of how much the employee should/may invest, based on an individual and commercial assessment.

(iv) Executive salary policy in previous financial years
The guidelines for the compensation policy described in clause (ii) also determined the fixing of executive salaries in 2019, but as stated above, for 2020 some changes have been made to the guidelines for the bonus programme, adopted by the Board of Directors. No bonus was paid for 2019.

(v) Changes in contractual agreements
CEO Christian Granlund of Vectura AS resigned from his position on 1 November 2019. He was replaced by Roar Ødelien, who came from a position as logistics director at Nortura.

Group HR Director Bjørn Delbæk resigned from his position on 1 September 2019 and took up a part-time position. He was replaced by Jan-Erik Nilsen, who serves in the position until further notice, and who came from a position as HR Director and HR Business Partner for Vectura.

Petra Thoren was appointed CEO of Vingruppen OY in Finland on 1 December 2019 and joined the Group Management, reporting to the Group CEO after Vingruppen OY in Finland was subject to re-organisation.

The remuneration of the Board of Directors is as follows, as from 11.04.2019

Chairman of the Board of Directors	NOK 550,000 p.a.
Board members elected by the shareholders	NOK 275,000 p.a.
Board members elected by the employees	NOK 170,000 p.a.
Deputy member elected by the employees	NOK 7,500 per meeting
Audit Committee	
Chair of the committee	NOK 100,000 p.a.
Member	NOK 50,000 p.a.
Remuneration Committee	
Chair of the committee	NOK 41,000 p.a.
Member	NOK 26,000 p.a.

Actual payments to Board members are as follows

Remuneration to the members of the Board of Directors in 2019:

Figures in NOK 1000		Board fees including committee work	Number of shares at 31.12.2019
Board members elected by the shareholders			
Michael Holm Johansen	Chairman of the Board	582	156300
Hanne Refsholt	Resigned from the Board in 2019	73	0
Leena Maria Saarinen		293	1,860
Trond Berger	Resigned from the Board in 2019	93	17441
Eilif Due		298	2,325
Stein Erik Hagen	Resigned from the Board in 2019	107	0
Ann-Beth Freuchen		262	0
Kirsten Ægidius	Newly-elected Board member in 2019	197	0
Nils K. Selte	Newly-elected Board member in 2019	330	0
Carl Erik Hagen[1]	Newly-elected Board member in 2019	0	30093077
Board members elected by the employees			
Erik Hagen		See the Table below	1334
Konstanse M. Kjøle		See the Table below	681
Ann Therese Jacobsen		See the Table below	0

1. Stein Erik Hagen does not own shares on a personal basis. Declared shareholdings relate to the shareholder Canica AS, which is controlled by Carl Erik Hagen and his associate, and for which he is deputy chairman of the Board of Directors.

Figures in NOK 1000	Salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	506	165	7	26
Konstanse M. Kjøle	609	165	7	33
Ann Therese Jacobsen	611	165	5	29
Arne Larsen[1]	0	16	0	0

1. Arne Larsen attended two Board meetings as deputy employee representative.

Remuneration to the members of the Board of Directors in 2018:

Figures in NOK 1000		Board fees including committee work	Number of shares 31.12.2018
Board members elected by the shareholders			
Michael Holm Johansen	Chairman of the Board	548	156300
Hanne Refsholt		255	0
Leena Maria Saarinen		269	1860
Trond Berger		315	17441
Eilif Due[1]		229	3299325
Stein Erik Hagen[2]		229	28607626
Ann-Beth Freuchen		229	0
Board members elected by the employees			
Erik Hagen		See the Table below	925
Konstanse M. Kjøle	Newly-elected Board member in 2018	See the Table below	681
Ann Therese Jacobsen	Newly-elected Board member elected by the employees in 2018	See the Table below	0

1. Eilif Due owns 2,325 shares on a personal basis. Other declared shareholdings relate to the shareholder Hoff SA, of which he is Chairman of the Board of Directors.
2. Stein Erik Hagen does not own shares on a personal basis. Declared shareholdings relate to the shareholder Canica AS, which is controlled by Stein Erik Hagen and his associate, and of which he is a member of the Board of Directors.

Figures in NOK 1000	Salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	493	153	6	25
Ingrid E. Skistad[1]	317	76	5	18
Kjell Arne Greni[1]	97	76	3	9
Konstanse M. Kjøle[2]	285	77	2	14
Ann Therese Jacobsen[2]	269	77	1	13
Arne Larsen[3]	0	15	0	0

1. Kjell Arne Greni and Ingrid E. Skistad resigned from the Board on 30 June 2018, and the payments represent six months' membership of the Board.
2. Konstanse M. Kjøle and Ann Therese Jacobsen joined the Board on 1 July 2018, and the payments represent six months' membership of the Board.
3. Arne Larsen attended two Board meetings as deputy employee representative.

NOTE 7 SHARE-BASED REMUNERATION

Share-based incentive schemes
During the year, the Group had two share-based incentive programmes for senior executives, which are related to the Group's share value, but one of the programmes was concluded during 2019. The Group also has a share savings programme in which all employees can participate.

Matching shares for senior executives and other key persons.
Before the Board of Directors in 2017 adopted a new long-term incentive scheme for senior executives, in conjunction with the IPO in 2016 a temporary two-year incentive scheme (interim retention plan) was adopted, in which 37 employees, including the Group Management, were awarded matching shares. These matching shares were redeemed in the first quarter of 2019, for the executives still employed by the Group. Of the nine members of the Group Management offered this scheme in 2016, eight members redeemed shares in 2019.

For the Group Management, matching shares were granted whereby for each share they acquired in addition to their reinvestment obligations related to the settlement of the completed programme with synthetic shares and options, they also received one matching share. The members of the Group Management who did not already hold synthetic shares or options were entitled to receive either one matching share for each share they purchased in total, or one matching share for every two shares they purchased in total.

Other key persons were invited to purchase shares for up to a given amount, with the right to receive one matching share for every two shares they purchased. Of the 33 key persons who received this offer, 29 made use of it. In 2017 and 2018, six key persons attached to this programme resigned, so that on the redemption date in February 2019, shares were redeemed by 23 key persons.

In total, 31 persons redeemed 253,732 matching shares, eight of whom were members of the Group Management, and 23 were other key persons.

Below, the number of matching shares redeemed by the Group Management in 2019 is presented, of which the fair value was based on Arcus' share price as at 14.02.2019 (NOK 41.95).

Figures in NOK 1,000	Allocation date	Number of matching shares on the allocation date	Number of matching shares redeemed in 2019	Fair value on the redemption date	Redemption date
Kenneth Hamnes	01.12.2016	42,100	42,100	1,766	14.02.2019
Sigmund Toth	01.12.2016	19,767	19,767	829	14.02.2019
Erlend Stefansson	01.12.2016	27,062	27,062	1,135	14.02.2019
Erik Bern	01.12.2016	9,956	9,956	418	14.02.2019
Bjørn Delbæk	01.12.2016	8,692	8,692	365	14.02.2019
Jan-Erik Nilsen	01.12.2016	2,942	2,942	123	14.02.2019
Per Bjørkum	01.12.2016	8,256	8,256	346	14.02.2019
Eirik Andersen	01.12.2016	7,558	7,558	317	14.02.2019
Svante Selling	01.12.2016	6,781	6,781	284	14.02.2019
Total, Group Management		**133,114**	**133,114**	**5,584**	
Other managerial employees	01.12.2016	247,645	120,618	5,060	14.02.2019
Total number of matching shares		**380,759**	**253,732**	**10,644**	

Overview of the development in the number of allocated matching shares:

Number of matching shares	**2019**	**2018**
Outstanding matching shares at the beginning of the year	253,732	330,818
Matching shares redeemed during the year	-253,732	0
Terminated matching shares during the year	0	-77,086
Outstanding matching shares at the end of the year	**0**	**253,732**

Effects of matching shares in the accounts:

Figures in NOK 1,000	**2019**	**2018**
Earning of matching shares	808	5,574
Deduction of matching shares	0	-2,321
Change in provision for employer taxes	202	545
Total costs related to matching shares	**1,010**	**3,798**
Liabilities[1]	**0**	**1,923**

1. Solely includes employer taxes

Option programme for senior executives

In 2017, 2018 and 2019, options were granted in an option programme for senior executives in the Group. On expiry, the beneficiaries will receive shares in Arcus ASA equivalent to their options.

The options' vesting period will be three years from the allocation date, where the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The number of options allocated annually will vary, and will correspond to the individual executive's potential maximum bonus that can be achieved in relation to the listed price on the allocation date. The options' strike price is calculated as the volume-adjusted listed price for the last ten days prior to the allocation date, with the addition of 10 percent.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

No options were redeemed in 2019, but at the end of 2019 all of the options allocated in 2017 were cancelled, since the Group's KPI objectives as determined by the Board of Directors were not achieved for the period. Below, the Group Management's holdings of options at the end of 2019 are presented.

Allocation date	**# 2019**	**# 2018**	**# 2017**
Vesting period	11.4.2019 - 11.04.2022	11.4.2018 - 11.04.2021	04.05.2017 - 04.05.2020
Redemption period	11.4.2022 - 11.04.2024	11.4.2021 - 11.04.2023	04.05.2020 - 04.05.2022
Redemption price	NOK 40.52	NOK 45.22	NOK 51.53

Number of options	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Kenneth Hamnes	335,918	0	243,457	243,457	0	199,426
Sigmund Toth	176,799	0	125,103	125,103	0	90,773
Erlend Stefansson	186,395	0	135,053	135,053	0	110,628
Erik Bern	162,669	0	117,862	117,862	0	96,546
Jan-Erik Nilsen	0	0	0	0	0	0
Per Bjørkum	139,044	0	100,745	100,745	0	82,524
Eirik Andersen	176,799	0	69,136	69,136	0	57,765
Svante Selling	157,997	0	117,174	117,174	0	53,816
Petra Thorén	0	0	0	0	0	0
Roar Ødelien	0	0	0	0	0	0
Total, Group Management	**1,335,621**	**0**	**908,530**	**908,530**	**0**	**691,478**
Other managerial employees	698,181	0	153,561	435,960	0	381,532
Total number of options	**2,033,802**	**0**	**1,062,091**	**1,344,490**	**0**	**1,073,010**

Basis for calculation of options:		**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Share price on the allocation date	NOK	38.80	0	43.70	43.70	47.90	47.90
Share price on the date of statement of financial position	NOK	36.50	0	36.50	41.00	36.50	41.00
Redemption price - minimum	NOK	40.52	0	45.22	45.22	51.53	51.53
Redemption price - maximum	NOK	116.40	0	131.10	131.10	143.70	143.70
Risk-free interest	%	1.4%	0	1.4%	1.4%	1.4%	1.2%
Volatility *	%	20.0%	0	20.0%	22.0%	20.0%	22.0%
Expected dividend	%	3.6%	0	3.6%	3.4%	3.6%	3.4%

* On the basis that the company itself only has three years' stock exchange history, on calculating the volatility assumption applied to the option calculations, the Group has applied an average of the company's own volatility figures and an average from equivalent comparable companies on other european stock exchanges.

Overview of development in the number of allocated options:

Number of options	2019	2018
Outstanding options at the beginning of the year	2,417,500	1,229,304
Allocated options during the year	2,195,086	1,534,306
Terminated options during the year	-1,516,693	-346,110
Outstanding options at the end of the year	**3,095,893**	**2,417,500**

Effects of options in the accounts:

Figures in NOK 1,000	2019	2018
Earning of options	5,440	3,855
Deduction of options	-5,874	-386
Change in provision for employer taxes	-183	335
Total option costs	**-617**	**3,804**
Liabilities[1]	**417**	**600**

1. Solely includes employer taxes

Share savings programme for all employees
The Group also has a general share savings scheme for all employees, whereby all employees will annually have the opportunity to buy a limited number of shares in Arcus ASA, with a discount of 20 percent. Sale of shares to employees below market value is recognised as a personnel cost comprising the difference between the market value of the shares and the purchase price.

In 2019, a total of 54 employees subscribed for a total of 31,468 shares. These were purchased for an average price of NOK 36.70 and sold to the employees at a discount of 20 percent. For this, costs of TNOK 231 were charged to the consolidated accounts in 2019.

	2019	2018
Number of employees who purchased shares at a discount	54	76
Number of shares purchased at a discount	31,468	26,744
Average price per share for purchase by employees at a discount (NOK)	36.70	41.67
Total cost for the Group (TNOK)	231	258

NOTE 8 PENSION COSTS, ASSETS AND OBLIGATIONS

Defined benefit pension plan
Up to 31 December 2008, Arcus ASA and its subsidiaries in Norway had a group defined benefit plan for their employees in Statens Pensjonskasse (the Norwegian Public Service Pension Fund – SPK) and Storebrand. The SPK pension plan also included a contractual early retirement plan (AFP) with financing from the commencement of employment. From 31 December 2008, the Board of Directors terminated the SPK group pension plan for the entire Group in order to switch to defined contribution plans.

On the transition to the new pension plan, all those who were ill or disabled remained in the respective defined benefit plans in Statens Pensjonskasse (SPK) and Storebrand. SPK has confirmed that Arcus no longer has any legal obligations associated with the remaining pension recipients who are linked to the SPK defined benefit plans, but is only obliged to pay annual premium contributions specified by SPK, according to the same principle as for defined contribution plans. The Group therefore carries the current invoices from SPK to expenses in the same way as for the defined contribution plan. Within the pension obligation as at 31.12.2019, a provision of NOK 2.4 million is linked to five individuals in the Storebrand defined benefit plan. This is the only pension obligation secured with assets.

In addition, two individuals, both of whom are no longer employed by the company, have a defined benefit plan for salaries above 12G (National Insurance base amount). This plan was recognised with obligations totalling NOK 5.2 million at the end of 2019.

Gift pension and unfunded pension arrangement
On the transition to the defined contribution plan in 2009, there were individual employees who had previously been with SPK who would be disadvantaged in the event of early retirement at 65-67 years of age. To compensate for this, it was agreed that a gift pension would be paid to all employees who were with SPK before the transition. As at 31.12.2019, this gift pension is linked to 115 employees in the Norwegian operations, while the total obligation has been recognised at NOK 13.1 million.

The Group CEO has an unfunded pension arrangement in which the pension entitlement earned is 15 percent of the salary above 12G. At the end of 2019, this obligation was recognised at NOK 1.4 million.

Contractual early retirement plan pension (AFP)
Most of the Group's Norwegian employees are covered by the AFP plan. This AFP plan gives a lifelong supplement to the ordinary pension plan. Employees can choose to take out the new AFP pension as from the age of 62, also while continuing to work. This new AFP plan is a collective-agreement based defined benefit multi-enterprise pension scheme, and is financed through premiums that are set as a percentage of salary. So far, no reliable measurement and allocation of obligations and assets are available for the plan. In accounting terms, the plan is treated as a defined contribution pension plan in which premium payments are charged as current costs and no provisions are made in the financial statements. In 2019 and 2018, the current premium payments were set at 2.50 percent of total salary payments between 1 G and 7.1 G to the company's employees. It has been decided not to change the premium payments for 2020. There is no accumulation of funds in the plan and it is expected that the premium level will increase over the coming years.

There are some seniority requirements associated with the new AFP plan with regard to accumulated length of employment in the scheme, and the limited liability company must be subject to a collective agreement. There are three limited liability companies in Norway, with a total of eight persons who were not subject to the AFP plan as at 31.12.2019.

Defined contribution pension

The Arcus Group's general pension scheme for all other employees concerns defined-contribution pension plans which are adapted to the regulations in the individual countries in which the Group has employees.

Norway

The general defined-contribution pension plan has contribution rates of 5 percent of salary in the bracket from 0 to 7.1 times the National Insurance basic amount (G); and 11 percent of salary in the bracket from 7.1 to 12 times the National Insurance basic amount (G). There is also a disability scheme with 69 percent, plus 18 percent of the basic amount (G), as the benefit level, without free policy accumulation. Arcus ASA with subsidiary has group life insurance on death of up to 10G for all employees.

The costs associated with the defined contribution pension plan are related to the current premium invoices from the insurance company with which Arcus has signed a defined contribution pension agreement. The current defined contribution pensions and disability pensions for employees in the defined contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined contribution plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised obligation related to this was NOK 1.6 million at the end of 2019.

Sweden

In Sweden, the contributions are, to a great extent, individually agreed contribution rates based on individual salaries, and these can vary considerably. In 2019, the contribution rates including insurance schemes varied from 9 percent to 30 percent of the individual's salary. The contribution rates apply as from the first krone earned.

Denmark

The general defined contribution pension scheme in Denmark has contribution rates varying from 8 to 12.5 percent. The contribution rates apply as from the first krone earned.

Finland

The general defined contribution pension scheme in Finland has contribution rates of 18.05 percent for employees aged below 53, and 16.55 percent for employees aged over 53.

Germany

The contribution rate in Germany is 18.6 percent of the employee's salary, up to the maximum calculation basis of EUR 78,000. The pension contribution in Germany is divided 50/50 between employer and employee, so that the net cost for the German company is 9.3 percent.

Other matters

The Group applies a discount rate equivalent to the covered bond interest rate to its pension obligations. The pension assumptions made by the Group are consistent with the recommendations of the Accounting Standards Board from September 2019. Due to the lack of significance, the assumptions were not updated as of 31.12.2019.

The table presents both defined benefit and other actuarially calculation pension obligations.

Figures in NOK 1,000

Pension costs	**2019**	**2018**
Present value of pension earnings for the year	644	687
Interest cost of pension obligations	681	870
Return on pension assets	-208	-231
Administration costs	170	109
Accrued social security contributions	157	202
Net pension costs after social security contributions	**1,444**	**1,637**
Defined contribution pension plan		
Recognised contributions excluding social security contributions	30,520	30,420
Net pension obligations:		
Estimated accrued obligations, funded pension plans	10,912	9,058
Estimated value of pension assets	-8,498	-7,721
Net estimated funded pension obligations (+)/assets (-)	2,414	1,337
Estimated accrued obligations, non-funded pension plans	21,310	19,740
Net pension obligations recognised in the statement of financial position	**23,724**	**21,077**
Changes in obligations:		
Net pension obligations 01.01	21,077	30,552
Pension costs, continued operations	1,444	1,637
Paid out via operations	-277	-809
Premium payments including SSC	-509	-403
Estimate deviations recognised directly in equity (IAS19R)	1,989	-9,900
Net pension obligations 31.12.	**23,724**	**21,077**
Summary of pension assets:		
Shares and other equity instruments	8,498	7,721
Total pension assets 31.12.	**8,498**	**7,721**

Figures in NOK 1,000 **Financial assumptions:**	**2019**	**2018**
Discount rate	1.80%	2.60%
Expected salary adjustment	2.25%	2.75%
Expected pension increase	1.25%	1.75%
Expected adjustment of the National Insurance basic amount (G)	2.00%	2.50%
Expected return on pension assets	1.80%	2.60%

Actuarial and demographic assumptions		
Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

Sensitivity analysis of net pension obligations:
The table below shows the effects of changes in pension obligations, deferred tax assets and equity in the event of a change in the most important economic assumptions by one percentage point up or down. The calculations are otherwise carried out in the same way as the actuarial calculations and are based on all other economic and demographic assumptions remaining unchanged.

Sensitivity 2019	**Discount rate**		**Salary growth**		**Adjustment of NI basic amount (G)**	
Change in percentage points	1%	-1%	1%	-1%	1%	-1%
Change in pension obligations	1,862	-2,224	756	-713	784	-712
Change in deferred tax assets	-410	489	-166	157	-173	157
Change in equity	-1,452	1,735	-590	556	-612	555
Percentage change in obligations	**7.8%**	**-9.4%**	**3.2%**	**-3.0%**	**3.3%**	**-3.0%**

Sensitivity 2018	**Discount rate**		**Salary growth**		**Adjustment of NI basic amount (G)**	
Change in percentage points	1%	-1%	1%	-1%	1%	-1%
Change in pension obligations	-2,002	2,361	1,960	-1,749	1,960	-1,749
Change in deferred tax assets	441	-519	-431	385	-431	385
Change in equity	1,562	-1,841	-1,529	1,365	-1,529	1,365
Percentage change in obligations	**-9.5%**	**11.2%**	**9.3%**	**-8.3%**	**9.3%**	**-8.3%**

Summary of cash flows related to pension plans

Figures in NOK 1,000	**2019**	**2018**
Premium payments, Storebrand defined benefit plan recognised in the statement of financial position	495	403
Premium payments, SPK defined benefit plan not recognised in the statement of financial position	85	84
Payments from operations, gift pension at 65-67 recognised in the statement of financial position	278	809
Premium payments. AFP scheme	4,268	4,197
Premium payments, defined contribution pension plan	29,878	27,254
Total	**35,004**	**32,747**

All figures include social security costs.

Premium payments associated with ordinary defined contribution pension plans are the largest disbursement items associated with pensions. The basis for the premium payments to the defined contribution plan is calculated according to the actual salaries and will reflect the salary development within the company.

Premium payments to the new AFP plan are also calculated on the basis of actual salaries, in addition to how the premium rate is expected to increase in the years ahead. The premium rate was 2.50 percent in 2018 and 2019 and this will remain unchanged in 2020.

NOTE 9 FINANCIAL INCOME AND COSTS

Figures in NOK 1,000	2019	2018
Financial income		
External interest income	22,498	12,906
Total interest income	**22,498**	**12,906**
Value adjustment of liabilities at fair value	3,364	0
Agio gains	26,656	27,727
Other financial income	18	13
Total other financial income	**30,038**	**27,740**
Total financial income	**52,536**	**40,646**
Financial costs		
Interest costs to financial institutions	-47,460	-37,302
Interest costs for rights of use related to lease agreements	-49,854	0
Interest costs for liabilities at fair value in the statement of financial position	-196	-104
Amortisation of front-end fee related to credit facilities at SEB	-1,618	-1,623
Total interest costs	**-99,128**	**-39,029**
Value adjustment of minority options at fair value	0	-2,560
Value adjustment of foreign exchange forward contracts at fair value	-1,049	-369
Agio loss	-29,674	-26,178
Other financial costs	-7,970	-8,626
Total other financial costs	**-38,693**	**-37,733**
Total financial costs	**-137,821**	**-76,762**
Net financial profit/loss	**-85,285**	**-36,116**

NOTE 10 TAX

Tax for the year is calculated as follows:

Figures in NOK 1,000	2019	2018
Tax payable	-23,871	-31,141
Change in deferred tax	-15,310	-25,595
Insufficient provision in previous years	-1	-27
Tax cost	**-39,182**	**-56,763**

Tax cost breakdown by country	2019	2018
Tax - Norway	-13,637	-27,498
Tax - Sweden	-16,138	-19,594
Tax - Denmark	-6,914	-6,760
Tax - Finland	-2,207	-2,767
Tax - Germany	-286	-144
Total tax cost	**-39,182**	**-56,763**

Reconciliation from nominal to actual tax rates	2019	2018
Profit before tax	172,469	221,180
Expected income tax at the nominal tax rate in Norway	-37,943	-50,871
Tax effect of the following items:		
Non-deductible costs	-2,624	-2,804
Non-taxable revenue	791	361
Insufficient provision in previous years	1	27
Change in non-capitalised tax assets	-492	130
Change in tax rate	0	-5,017
Differences in tax rates	-74	1,132
Profit share, associated companies	892	532
Other	267	-253
Tax	**-39,182**	**-56,763**
Effective tax rate	23%	26%

Tax on items in OCI

Tax on items in OCI is entirely due to changes in deferred tax associated with pension obligations in Norway.

Tax payable by country in the statement of financial position	2019	2018
Prepaid tax payable		
Prepaid in Sweden	15,487	11,521
Prepaid in Finland	119	0
Prepaid in Germany	800	617
Total prepaid tax[1], see also Note 14	**16,406**	**12,138**
Tax payable		
Tax payable in Norway	0	1,472
Tax payable in Denmark	5,002	5,990
Tax payable in Finland	0	276
Total tax payable[1]	**5,002**	**7,738**

1. In 2018, prepaid tax payable was presented as a net total amount for the entire Group. As from 2019, prepaid tax or tax payable is presented as a net amount for the country to which the tax relates. Net prepaid tax in 2018 amounted to TNOK 4,400, which is the total prepaid tax and tax payable from the above table. See also Note 14.

Tax paid during the period, per country	2019	2018
Tax paid to Norway	-1,472	-3,053
Tax paid to Sweden	-21,050	-27,216
Tax paid to Denmark	-9,442	-6,344
Tax paid to Finland	-2,490	-2,871
Tax paid to Germany	-474	-507
Total tax paid	**-34,928**	**-39,991**

Specification of tax effect of temporary differences and deficit carried forward:

	2019		2018	
	Asset	Liability	Asset	Liability
Tangible fixed assets	-2,621	290	-5,960	394
Intangible fixed assets	-52,080	-101,565	-42,377	-102,262
Financial assets	-236	0	-638	0
Inventories	-8,972	0	-10,686	0
Trade receivables	1,320	0	1,429	0
Pension obligations	5,187	0	4,524	0
Provisions	2,029	0	5,162	0
Temporary tax fund	-528	15	-661	23
Deficit and interest limitations carried forward	142,001	0	159,365	0
Total deferred tax, gross	**86,100**	**-101,260**	**110,158**	**-101,845**
Unrecognised deferred tax assets	0	0	0	0
Net deferred tax in the statement of financial position	**86,100**	**-101,260**	**110,158**	**-101,845**

At the end of the year, the Group had NOK 142.0 million in capitalised deferred tax assets associated with the deficit carried forward from the Norwegian business. Based on an assessment and analysis of the Group's earnings in Norway historically, and the future prognosis, it is assessed that the deficit carried forward can be utilised in full, and the related deferred tax asset has therefore been entered.

Deferred tax positions are calculated on the basis of local tax rates in the respective countries on the reporting date. At the end of 2019, the rates were 22 percent in Norway, 21.4 percent in Sweden, 22 percent in Denmark and 20 percent in Finland, unchanged from the previous year.

At the end of 2019, deferred tax assets were associated with net negative temporary differences for the tax regimes in Norway and Sweden, while deferred tax liabilities were associated with net positive temporary differences for the tax regime in Denmark. The same applied to the end of 2018.

NOTE 11 TANGIBLE FIXED ASSETS

	Tangible fixed assets			
Figures in NOK 1,000	Machinery and equipment	Fixtures and fittings, tools, office equipment etc.	Assets under construction	Total tangible assets
Acquisition cost as at 01.01.2018	**548,875**	**89,016**	**5,678**	**643,569**
Addition of tangible fixed assets	12,487	554	6,771	19,812
Addition from financial lease	3,062	0	0	3,062
Transferred from assets under construction	3,858	1,673	-7,535	-2,004
Disposal at cost price	0	-6,096	0	-6,096
Translation differences	-92	-251	0	-343
Acquisition cost as at 01.01.2019	**568,190**	**84,896**	**4,914**	**658,000**
Addition of tangible fixed assets	4,823	1,338	12,562	18,723
Transferred from assets under construction	3,217	235	-3,797	-345
Reclassifications[1]	-273,398	0	0	-273,398
Disposal at cost price	-161	-12,935	-37	-13,133
Translation differences	-381	-247	0	-628
Acquisition cost 31.12.2019	**302,290**	**73,287**	**13,642**	**389,219**
Accumulated depreciation 01.01.18	**-244,341**	**-69,402**	**0**	**-313,743**
Ordinary depreciation	-30,635	-4,178	0	-34,813
Disposal, accumulated depreciation	0	6,096	0	6,096
Translation differences	59	240	0	299
Accumulated depreciation 01.01.2019	**-274,917**	**-67,244**	**0**	**-342,161**
Ordinary depreciation	-14,932	-3,814	0	-18,746
Disposal, accumulated depreciation	120	12,878	0	12,998
Reclassifications[1]	110,134	0	0	110,134
Translation differences	309	220	0	529
Accumulated depreciation 31.12.19	**-179,286**	**-57,960**	**0**	**-237,246**
Book value as at 31.12.19	**123,004**	**15,327**	**13,642**	**151,973**
Book value of capitalised interest costs	0	0	0	0

1. Reclassifications comprise the capitalised value of tights or use related to financial lease agreements. As a consequence of the introduction of IFRS 16, as from 01.01.2019 these are classified as rights of use. See also Note 13 concerning lease agreements.

Both the parent company and the Group use straight-line depreciation for all tangible fixed assets. The economic life of fixed assets is estimated as follows:

* Machinery and equipment, vehicles	3-20 years
* Fixtures and fittings, tools, office equipment etc.	4-10 years

No indications of impairment or a need to adjust the useful lives of assets were identified during the period.

NOTE 12 INTANGIBLE ASSETS

Figures in NOK 1,000	Goodwill	Brands	Software	Total
Acquisition cost 01.01.18	**1,065,296**	**873,246**	**127,869**	**2,066,411**
Addition of intangible assets	0	43	3,227	3,270
Transferred from assets under construction	0	0	2,004	2,004
Translation differences	-466	2,948	-107	2,375
Acquisition cost 01.01.19	**1,064,830**	**876,237**	**132,993**	**2,074,060**
Addition of intangible assets	0	250	1,246	1,496
Transferred from assets under construction	0	0	345	345
Acquisition of business	11,777	49,739	0	61,516
Translation differences	-5,722	-3,301	-170	-9,193
Acquisition cost 31.12.19	**1,070,885**	**922,925**	**134,414**	**2,128,224**
Accumulated depreciation 01.01.2018	**-22,700**	**-53,544**	**-98,718**	**-174,962**
Ordinary depreciation	0	0	-7,487	-7,487
Amortisation	0	-7,705	0	-7,705
Translation differences	0	21	-36	-15
Accumulated depreciation and write-downs 01.01.19	**-22,700**	**-61,228**	**-106,241**	**-190,169**
Ordinary depreciation	0	0	-7,168	-7,168
Accumulated depreciation on acquisition of business	0	-27	0	-27
Amortisation	0	-7,746	0	-7,746
Translation differences	0	41	28	69
Accumulated depreciation and impairments 31.12.2019	**-22,700**	**-68,960**	**-113,381**	**-205,041**
Book value 31.12.2019	**1,048,185**	**853,965**	**21,033**	**1,923,183**
Of which capitalised value of assets with indefinite useful lives	1,048,185	785,684	0	1,833,869
Economic life of intangible assets with definite useful lives		10-20 years	3-10 years	
Depreciation plan		Straight line	Straight line	

Impairment testing

Goodwill is allocated to the Group's cash-generating units and is tested for impairment annually, or more often if there are indicators that the values may have been subject to impairment. Testing for impairment involves determining the value in use of the cash-generating unit. The value in use is determined by discounting expected cash flows, based on the cash-generating unit's Board-approved business plans. The cash-generating unit is the lowest level at which it is possible to follow up operations comprising the relevant goodwill. At the end of 2019, cash-generating units related to impairment testing of goodwill are defined at business area level.

Equivalent impairment tests are made for brands. The cash-generating unit for impairment testing of brands is the brand itself.

A significant proportion of the Group's brands are assessed not to have definite useful lives. These are not amortized on an ongoing basis, but are solely subject to annual impairment testing. On initial recognition of brands, it is assessed whether the brand is expected to have definite useful lives or not. In this assessment, the Group gives special weight to the Group's expected use of the brand, the customary life cycles for brands of this type, the stability of the sector and the business, and the probability that the Group will succeed in maintaining the brand's financial lifetime, given the Group's ability to maintain value. The Group also devotes resources to legal control of brands in large and important markets.

At the end of 2019, all of the Group's brands with indefinite useful lives were related to the Spirits business. The Spirits business have been a stable sector for many years, and most of the brands within the Group's spirits business are brands that have existed for several decades, and some have existed for several hundred years. If impairment tests show declining curves over time, the brand may be written down to estimated useful value, and a new assessment of the brand's estimated useful life is performed. If it is estimated, after a new assessment, that the useful life is no longer indefinite, the brand is redefined to have a definite useful life, whereby a linear depreciation term is set for the remaining book value.

The discount rate used for both brands and goodwill is 8.8 percent before tax, and reflects the estimated risk and capital costs of the Group, based on a capital structure considered to be representative for the business in which the Arcus Group is engaged.

The short term Covid-19 impact has been assessed as part of the impairment analysis.

Recoverable amount (value in use) on impairment testing of goodwill

The recoverable amount of the cash-generating units is calculated on the basis of the present value estimate of the expected cash flows before tax. The cash flows used as the basis for the impairment test are based on assumptions concerning future sales volume, sales prices, purchase prices for input factors, salary development and other direct costs set out in Board-approved budgets and long-term plans. The terminal value is based on the cash flow in the last forecast year (2023). The terminal value is based on an assumption of inflation growth of 2 percent, and also reinvestments equivalent to the expected depreciation of the entities' fixed assets.

In 2019, the Group performed impairment tests whereby recoverable amounts on impairment testing of goodwill are based on the 2020 budget, and with real growth up to 2023 in both revenue and EBITDA equivalent to other long-term plans. The impairment tests have not entailed impairment, and downward adjustment of the estimated cash flows by 20 percent, or an increase in the discount rate by 2 percent, would either not have entailed impairment.

Recoverable amount (value in use) on impairment testing of brands

The recoverable amount for the brands is calculated on the basis of a "relief from royalty" method before taxes, whereby the brand's annual royalty is estimated as future revenue for the brand multiplied by a long-term expected profit level for the relevant brands. Future revenue is based on the 2020 budget, with real growth up to 2023 equivalent to other long-term plans. The terminal value is based on an assumption of inflation growth of 2 percent. Cash flow estimates used are discounted using a discount rate.

Downward adjustment of the estimated cash flows by 20 percent, or an increase in the discount rate by 2 percent, would not have entailed impairment for any of the brands.

The table below shows the Group's intangible assets with indefinite useful lives (goodwill and brands) per category of cash-generating units.

Figures in NOK 1,000	Category	Currency	Segment	Goodwill	Brands	Total
Category of cash-generating units						
Norwegian aquavits	Aquavit	DKK	Spirits	0	119,844	119,844
Danish aquavits	Aquavit	NOK	Spirits	0	291,016	291,016
Other aquavits	Aquavit	NOK, DKK, SEK	Spirits	0	12,223	12,223
Danish bitters	Bitter dram	NOK	Spirits	0	161,382	161,382
Norwegian cognac	Cognac	NOK	Spirits	0	12,425	12,425
Norwegian vodka	Vodka	NOK	Spirits	0	34,297	34,297
International vodka	Vodka	NOK	Spirits	0	66,740	66,740
Own brands, Wine	Own wines	NOK	Wine	0	2,651	2,651
Agency wine	Agency wine	NOK	Wine	0	49,711	49,711
Other brands	Other	NOK, DKK	Spirits	0	103,676	103,676
Segment Spirits		DKK	Spirits	425,026	0	425,026
Segment Spirits		NOK	Spirits	380,410	0	380,410
Wine Sweden - agency wine[1]		SEK	Wine	90,803	0	90,803
Wine Finland - agency wine[1]		EUR	Wine	24,951	0	24,951
Wine Norway - agency wine[1]		NOK	Wine	57,609	0	57,609
Wine Norway - own brands, wine		NOK	Wine	69,386	0	69,386
Total				**1,048,185**	**853,965**	**1,902,150**

1. In 2019, the Group took reorganisation measures for the Swedish/Finnish wine business, which entailed a clearer distinction between the Swedish and Finnish wine businesses. As a consequence, goodwill has been distributed between these two cash-generating units. The distribution was made on the basis of an assessment of which business the goodwill arose from in the first place, in accordance with IAS 36.

The various categories of cash-generating units listed below include the following well-known brands:

Category of cash-generating units	Brands
Norwegian aquavits	Lysholm Linie, Løiten Linie, Gammel Opland and Gilde, and other Norwegian aquavits
Danish aquavits	Aalborg
Other aquavits	Malteserkreutz and Snälleröds
Danish bitters	Gammel Dansk
Norwegian cognac	Braastad cognac
Norwegian vodka	Vikingfjord, Amundsen and Brennevin Seksti
International vodka	Vanlig, Dworek, Hammer, Kalinka and Dobra
Agency wine	Doppio Passo and Pietro de Campo
Other brands	Hot n'Sweet, Dooley's, Eau de Vie, Golden Cock, St. Hallvard, Upper Ten, Dry Anis and Star Gin

NOTE 13 LEASE AGREEMENTS AND OBLIGATIONS

As from 1 January 2019, the existing lease standard (IAS 17) is replaced by a new, updated standard for accounting treatment of leases (IFRS 16). The Group implemented this as from the same date.

The new standard concerning leases entails a significant change in the accounting policy related to leasing costs. All significant lease agreements are now capitalised. This has given significant rights of use on the asset side and an equivalent obligation on the liabilities side.

On the implementation of IFRS 16, the Group had two implementation method options: the full retrospective method or the modified retrospective method. The Group chose to implement IFRS 16 using the modified retrospective method, which means that the effects calculated on the implementation date were based on the remaining period of the lease as from the implementation date, and there were no adjustment to equity on the implementation date.

On the implementation date, the Group, as lessee, also had a number of options concerning the use of simplifications. The Group chose to use these simplification options, so that:

- Software licences are not included in the calculation basis.
- Short-term lease agreements expected to be for shorter terms than 12 months are not included in the calculation basis.
- Insignificant lease agreements (annual charge under TEUR 5) are not included in the calculation basis.
- Any service elements in the lease charge are not separated from the annual lease charge in the calculation basis.

Since the Group's subsidiaries adhere to local GAAP and not IFRS in their corporate accounts, the Group continues to make a distinction between operational and financial lease agreements.

- ***Financial lease agreements*** were already booked as part of the Group's statement of financial position before the introduction of IFRS 16. These are still booked as part of the subsidiaries' statements of financial position, with related rights of use and leaseobligations. The introduction of IFRS 16 has not entailed any changes for these agreements. The agreements' effect on earnings is booked as depreciation and interest costs in both the segments' results and the Group's consolidated result.

- ***Operational lease agreements*** are not booked in the subsidiaries' statements of financial position. These agreements' effect on earnings is presented as other operating expenses in the segment reporting, but as depreciation and interest costs in the Group's consolidated reporting.
  - For these lease agreements, the statement of financial position effects are estimated on the basis of the remaining lease payments, whereby the discount rate is equivalent to the Group's calculated average interest rate related to other financing.
  - The period of the lease is set as the period specified in the lease agreement. If the lease agreement includes options for renewal, the probability of the Group using the option is assessed. In cases where the probability is estimated to be greater than 50 percent, the fixed period of the lease also includes the renewal period based on the option.

In connection with the introduction of IFRS 16, the Group's reported net interest-bearing debt and adjusted EBITDA increased significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to a model that is independent of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms has not been affected by the introduction of IFRS 16.

	Rights of use				
Figures in NOK 1,000	Land, buildings and other real estate	Machinery and equipment	Vehicles	Fixtures and fittings, office equipment	Total tangible assets
Acquisition cost as at 01.01.2019	**0**	**0**	**0**	**0**	**0**
Recognition of rights of use, 01.01.2019	1,155,340	0	6,306	2,008	1,163,654
Addition of rights of use	0	11,446	10,822	0	22,268
Value changes in rights of use	15,898	8	-587	430	15,749
Reclassifications[1]	0	273,398	0	0	273,398
Disposal at cost price	-134	0	-1,260	-70	-1,464
Translation differences	239	0	36	7	282
Acquisition cost 31.12.2019	**1,171,343**	**284,852**	**15,317**	**2,375**	**1,473,887**
Accumulated depreciation 01.01.2019	**0**	**0**	**0**	**0**	**0**
Ordinary depreciation	-64,199	-17,258	-3,614	-842	-85,913
Disposal, accumulated depreciation	134	0	1,260	70	1,464
Reclassifications[1]	0	-110,134	0	0	-110,134
Translation differences	-33	0	-8	-1	-42
Accumulated depreciation 31.12.2019	**-64,098**	**-127,392**	**-2,362**	**-773**	**-194,625**
Book value as at 31.12.2019	**1,107,245**	**157,460**	**12,955**	**1,602**	**1,279,262**
Book value of capitalised interest costs	0	2,600	0	0	2,600

1. Reclassifications comprise the capitalised value of rights of use related to financial lease agreements. These were classified as ordinary operating equipment in 2018, but as a consequence of the introduction of IFRS 16, these are classified as rights of use as from 01.01.2019. See also Note 11 concerning fixed assets.

The Group applies straight-line depreciation to all rights of use assets.
The economic life of the rights of use is estimated as follows:

* Machinery and equipment, vehicles	7-15 years
* Fixtures and fittings, office equiopment	1-3 years
* Land, buildings and other real estate	1-32 years

No indications of impairment or a need to adjust the useful lives of assets were identified during the period.

Overview of calculated recognised rights of use and obligations as from 1 January 2019

Figures in NOK 1,000	Land, buildings and other real estate	Vehicles	Fixtures and fittings, office equipment	Total
Calculated rights of use 01.01.2019	1,155,340	6,306	2,008	1,163,654
Calculated leasing obligations 01.01.2019				1,163,654

Reconciliation of leasing obligations on transition from IAS 17 to IFRS 16

Figures in NOK 1,000	Total leasing obligations
Leasing obligation for operational leasing agreements, cf. IAS 17 (nominal values) 31.12.2018	1,614,548
Insignificant lease agreements	-48
Lease agreements with options for renewal, where the use of the option is assessed to be probable	39,372
Present value of interest payments	-490,218
Leasing obligation, cf. IFRS 16 1.1.2019	**1,163,654**

Specification of capitalised leasing obligations on the transition from IAS 17 to IFRS 16

Figures in NOK 1,000	Financial lease obligations	Operational lease obligations	Total lease obligations 2019	Total lease obligations 2018
Lease obligations, 31 December 2018[1]	**169,457**	**0**	**169,457**	**183,766**
Calculated lease obligations 01.01.2019, cf. the introduction of IFRS 16	0	1,163,654	1,163,654	0
New lease obligations during the year	11,446	10,822	22,268	3,061
Change in value of lease obligations during the year	8	15,741	15,749	0
Lease payments during the year	-18,153	-48,009	-66,162	-17,370
Translation differences	0	249	249	0
Lease obligations, 31 December 2019	**162,758**	**1,142,457**	**1,305,215**	**169,457**
Of which current lease obligations	103,665	50,534	154,199	18,063
Of which non-current lease obligations	59,101	1,091,915	1,151,016	151,394

1. Financial leases at the end of 2018 were presented as part of the debt to credit institutions.

Maturity analysis of lease obligations

Figures in nominal NOK 1,000	Due date within 1 year	Due date 2-5 years	Due date after more than 5 years	Total
Operational	94,549	363,682	1,138,320	1,596,551
Financial	107,930	55,651	5,013	168,594
Total	**202,479**	**419,333**	**1,143,333**	**1,765,145**

Operational lease agreements

Operational lease agreements include the agreement concluded with Gjelleråsen Eiendom AS on the lease of production, distribution and administration buildings at Gjelleråsen for a term of 25 years as from 1 January 2012. The annual rent under this agreement is TNOK 82,627 as from 2019. Other obligations include lease agreements for office premises in Stockholm, Copenhagen, Helsinki and Berlin, lease of company cars for individual employees, lease of a pallet-truck park, and lease of various office machines.

As a general rule, the lease period is set as the length of the lease contract. Most of the lease contracts related to production and office premises also include renewal options. In cases where the agreement includes such options, the probability that the option will be used is assessed, and if the probability is assessed to exceed 50 percent, the lease period will also include the contract renewal period.

Total lease obligations are calculated by discounting the nominal lease amount for these agreements by the Group's marginal borrowing rate.

Financial lease agreements

On moving to Gjelleråsen in 2012, agreements were entered into for the lease of a number of new machines and equipment for the production and distribution activities at Gjelleråsen. The contract partner for these agreements is Nordea Finans, and the agreements are subject to variable interest rates. Even though, in principle, the lease agreements have been entered into with a 15-year repayment and interest rate profile (annuity), the actual terms of the agreements are for a shorter period of time, with the option of renewal. Remaining capitalised lease liabilities will fall due in the course of the last 12 months of the agreement period. The Group and Nordea are in continuous dialogue concerning an extension of the agreements to a total maturity profile of 15 years. All changes to the agreements must be formally handled by the lessor.

Arcus-Gruppen AS has pledged a 100 percent surety guarantee for all liabilities that the subsidiaries have undertaken or may undertake in connection with the signed lease agreements. See also note 24 regarding pledges and guarantees.

Other financial leases are agreements for the lease of lorries in the logistics business. The contract partners for these agreements is Volvo Finans and Nordea Finans. These agreements have durations of 7-10 years, and run at variable interest rates.

Overview of total effect on earnings related to lease agreements.

Figures in NOK 1,000	2019	2018
Depreciation of rights of use	-85,913	-16,495
Interest costs related to rights of use	-49,854	-4,573
Costs related to short-term lease agreements (included in other operating costs)	-987	0
Costs related to operational lease agreements in other operating costs prior to the introduction of IFRS 16	0	-95,750
Total effects in the consolidated income statement	**-136,754**	**-116,818**

Overview of revenue from lease of rights of use

Figures in NOK 1,000	2019	2018
Sub-let premises at Gjelleråsen, Norway	2,014	1,095
Total revenue from sub-letting of rights of use	**2,014**	**1,095**

Reconciliation statement of income for 2019 versus 2018 adjusted for IFRS 16

Figures in NOK 1,000	2019 as reported, new IFRS 16 standard	2019 IFRS 16 reclassifi-cation	2019 reclassified, use of old IAS 17 standard	2018
Sales revenue	2,710,374	0	2,710,374	2,672,615
Other operating revenue	52,403	0	52,403	50,586
Total revenue	**2,762,777**	**0**	**2,762,777**	**2,723,201**
Net gain on sale of fixed assets	11	0	11	365
Cost of sales	-1,601,113	0	-1,601,113	-1,577,306
Salaries and other personnel costs	-439,220	0	-439,220	-426,644
Depreciation and amortisation	-119,573	68,655	-50,918	-50,005
Other operating expenses	-329,443	-92,862	-422,305	-409,330
Share of profit from associated companies and jointly controlled entities	4,059	0	4,059	2,311
Operating profit before other income and expenses	**277,498**	**-24,207**	**253,291**	**262,592**
Other income and expenses	-19,744	0	-19,744	-5,296
Operating profit	**257,754**	**-24,207**	**233,547**	**257,296**
Interest income	22,498	0	22,498	12,906
Other financial income	30,038	0	30,038	27,740
Interest costs	-99,128	44,854	-54,274	-39,029
Other financial costs	-38,693	0	-38,693	-37,733
Net financial profit/loss	**-85,285**	**44,854**	**-40,431**	**-36,116**
Profit before tax	**172,469**	**20,647**	**193,116**	**221,180**
Tax	-39,182	-4,538	-43,720	-56,763
Profit for the year	**133,287**	**16,109**	**149,396**	**164,417**

Reconciliation statement of financial position for 2019 versus 2018 adjusted for IFRS 16

Figures in NOK 1,000	2019 as reported, new IFRS 16 standard	2019 IFRS 16 reclassifi-cation	2019 reclassified, use of old IAS 17 standard	2018
Total intangible assets	**1,923,183**	**0**	**1,923,183**	**1,883,891**
Tangible fixed assets	151,973	157,460	309,433	315,839
Rights of use	1,279,262	-1,279,262	0	0
Total tangible assets	**1,431,235**	**-1,121,802**	**309,433**	**315,839**
Deferred tax assets	**86,100**	**-4,538**	**81,562**	**110,158**
Total financial assets	**65,276**	**0**	**65,276**	**63,072**
Total fixed assets	**3,505,794**	**0**	**3,505,794**	**2,372,960**
Total current assets	**2,084,103**	**0**	**2,084,103**	**2,064,402**
Total assets	**5,589,897**	**-1,126,340**	**4,463,557**	**4,437,362**
			0	
Total equity	**1,662,223**	**16,109**	**1,678,332**	**1,654,034**
Total provisions	**194,327**	**0**	**194,327**	**197,232**
Debt to financial institutions	703,829	59,101	762,930	874,895
Lease obligations	1,151,016	-1,151,016	0	0
Other non-current liabilities	464	0	464	647
Total other non-current liabilities	**1,855,309**	**-1,091,915**	**763,394**	**875,542**
Debt to financial institutions	0	103,665	103,665	18,063
Lease obligations	154,199	-154,199	0	0
Other current liabilities	1,723,839	0	1,723,839	1,692,491
Total current liabilities	**1,878,038**	**-50,534**	**1,827,504**	**1,710,554**
Total liabilities	**3,927,674**	**-1,142,449**	**2,785,225**	**2,783,328**
Total debt and equity	**5,589,897**	**-1,126,340**	**4,463,557**	**4,437,362**

Reconciliation, cash flow 2019 versus 2018 adjusted for IFRS 16

Figures in NOK 1,000	2019 as reported, new IFRS 16 standard	2019 IFRS 16 reclassifi-cation	2019 reclassified, use of old IAS 17 standard	2018
Profit before tax	172,469	20,647	193,116	221,180
Depreciation and amortisation	119,573	-68,655	50,918	50,005
Interest costs during the period	97,510	-44,854	52,656	
Other effects related to operational activities	-97,878	0	-97,878	123,351
Net cash flow from operational activities	**291,674**	**-92,862**	**198,812**	**394,536**
Net cash flow from investment activities	**-70,778**	**0**	**-70,778**	**-22,836**
Repayment of interest-bearing debt	-66,162	48,009	-18,153	-17,370
Interest costs paid during the period	-97,314	44,854	-52,460	-37,302
Other effects related to financial activities	-120,179	0	-120,179	-206,229
Net cash flow from financing activities	**-283,655**	**92,863**	**-190,792**	**-260,901**
Effect of exchange rate fluctuations on cash and cash equivalents	-14,806	0	-14,806	-12,620
Net change in bank deposits, cash and cash equivalents	**-77,565**	**0**	**-77,565**	**98,179**

NOTE 14 OTHER RECEIVABLES

Figures in NOK 1,000	Note	2019	2018
Non-current receivables			
Non-current loans to associated companies		506	506
Other non-current receivables		0	1,075
Total other non-current receivables		**506**	**1,581**

The Group has no receivables with a term of more than five years.

Figures in NOK 1,000		2019	2018
Current receivables			
Prepaid costs*	1.4	26,342	15,001
Prepaid tax	10	16,406	4,400
Fair value of forward contracts	1	0	624
Other current receivables*	1.4	8,062	6,958
Total other current receivables		**50,810**	**26,983**

Figures in NOK 1,000		2019	2018
Prepayments to suppliers			
Nominal prepayments to suppliers		67,772	58,899
Provision for losses		-4,620	-5,900
Total prepayments to suppliers*	1.4	**63,152**	**52,999**

Through its logistics business, Vectura purchases goods on behalf of agents and importers. Depending on the type of agreement entered into by the agent or importer, there will be instances where Vectura buys in goods on behalf of the agent or importer and where the agent or importer bears most of the risk associated with this inventory. This type of financing of inventory for individual partners is stated at nominal value less provision for expected losses, and is presented as prepayments to suppliers.

* Items included in changes in working capital in Note 4.

NOTE 15 INVENTORIES

Figures in NOK 1,000	2019	2018
Raw materials	32,117	25,951
Goods in transit[1]	14,951	0
Goods in progress	107,163	97,521
Finished goods/goods for resale	351,860	332,902
Provision for obsolescence	-19,479	-15,257
Total inventories	**486,612**	**441,117**

1. Goods in transit comprise goods that have not yet been physically received, but where the Group has taken over the significant risk for the goods in transit.

Cost of inventories in the statement of income comprises purchase costs for finished goods/goods for resale and production value at cost price for goods produced in-house. The total cost of inventories was NOK 1,601 million in 2019 (2018: NOK 1,577 million).

See also Note 24 for details of pledges and guarantees.

NOTE 16 CURRENT LIABILITIES

Figures in NOK 1000	2019	2018
Unpaid public duties		
Special duties, alcohol	581,673	564,611
Value added tax	354,509	344,692
Other public duties	23,515	21,149
Total unpaid public duties*	**959,697**	**930,452**

Figures in NOK 1000	2019	2018
Other current liabilities		
Current non-interest-bearing debt*	19,579	22,894
Fair value, foreign exchange forward contracts	425	0
Provision for social security costs related to share-based remuneration	0	1,923
Provision for liabilities*, see Note 20	6,121	8,398
Other accrued costs*	162,516	152,041
Total other current liabilities	**188,641**	**185,256**

* Items included in changes in working capital in Note 4.

All current liabilities fall due within 12 months.

NOTE 17 CASH AND CASH EQUIVALENTS

Figures in NOK 1,000	2019	2018
Cash and cash equivalents in the Group's cash pool system	64,182	149,213
Other bank deposits	140,837	133,210
Cash holdings	10	171
Total cash and cash equivalents	**205,029**	**282,594**
Available drawing rights	605,183	605,850
Utilised drawing rights	0	0
Available liquidity	**810,212**	**888,444**

Figures in NOK 1,000	2019	2018
Restricted bank deposits		
Restricted bank deposits	571	554
Total restricted bank deposits	**571**	**554**

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes all subsidiaries, with the exception of the companies included in the wine business in Sweden and Finland. At the end of 2019, this Group cash pool system was managed by the parent company, Arcus ASA.

The joint overdraft limit in the Group cash pool system is TNOK 600,000. At the end of 2019, the Group has a deposit of TNOK 64,182, while at the end of 2018 it had a deposit TNOK 149,213. The parent company, Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

In addition, the subsidiary group Vingruppen i Norden AB has a separate overdraft arrangement in Sweden, with a maximum credit facility of TNOK 5,183 at the end of 2019. There was no drawing on any of these entitlements at the end of 2019.

The Group's exposure to interest-rate risk is stated in Note 1.

Summary of bank guarantees as at 31 December:

Figures in NOK 1,000	2019	2018
Bank guarantees for tax deduction funds	28,050	30,500
Bank guarantees for customs and duty credit facilities	29,094	29,431
Other bank guarantees	73	76
Total bank guarantees	**57,217**	**60,007**

NOTE 18 LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Options for the purchase of non-controlling interests:
Within the Group's wine business, the general managers of several subsidiaries have non-controlling interests. Most of the general managers have put options linked to their interests, and these options can be exercised on a future date. The Group does not have control of these shares at the of the period, nor does it have control of the possible exercising of the put options. The value of the put options is therefore recognised as liabilities at fair value at the end of the year.

The liabilities related to options for the purchase of non-controlling interests are estimated on the basis of pricing mechanisms applied in the shareholder agreements, discounted to the close of the financial year. The most important parameters in the pricing mechanisms were the development of the share values, measured as EBIT (operating profit) up until the estimated due date, multiplied by a fixed, market-based multiple. As the basis for EBIT, the underlying companies' budgets and long-term plans up until the expected due date are used. The discount rate used is NIBOR or STIBOR, with duration matched to the expected due date.

Reconciliation of earmarked liabilities, measured at fair value via profit or loss:

Figures in 1,000 (stated currency)	Minority options	Liability at fair value through profit or loss
Book value of liability 31.12.2017	**0**	**0**
Fair value on initial recognition 2018	67,874	67,874
Changes in value during the period 2018	2,560	2,560
Interest during the period 2018	104	104
Translation differences 2018	3,680	3,680
Book value of liability 31.12.2018	**74,218**	**74,218**
Changes in value during the period 2019	-3,364	-3,364
Interest during the period 2019	196	196
Translation differences 2019	-1,707	-1,707
Book value of liability 31.12.2019	**69,343**	**69,343**
Of which due within 12 months, presented as current liabilities	0	0
Of which due after 12 months or later, presented as non-current liabilities	69,343	69,343

NOTE 19 INTEREST-BEARING DEBT

Figures in 1,000	Type of financing	Currency	Interest-rate profile	Loan amount in foreign currency 31.12.2019	Loan amount in NOK 31.12.2019	Loan amount in NOK 31.12.2018
SEB	Mortgage loan	SEK	Variable	750,000	706,950	728,325
Several	lease obligations	NOK	Variable	1,257,547	1,257,547	169,457
Several	lease obligations	DKK	Variable	21,934	29,014	0
Several	lease obligations	SEK	Variable	13,647	12,864	0
Several	lease obligations	EUR	Variable	586	5,790	0
Total interest-bearing debt					**2,012,165**	**897,782**
Capitalised front-end fees					-3,121	-4,824
Book value of interest-bearing debt					**2,009,044**	**892,958**

Term structure

Figures in 1,000	Type of financing	Currency	Maturity 2020	Maturity 2021-2024	Maturity 2025 or later	Total
SEB	Mortgage loan	SEK	0	706,950	0	706,950
Several	lease obligations	NOK	148,115	247,607	861,825	1,257,547
Several	lease obligations	DKK	458	2,694	25,862	29,014
Several	lease obligations	SEK	3,265	9,599	0	12,864
Several	lease obligations	EUR	2,361	3,429	0	5,790
Total interest-bearing debt			**154,199**	**970,279**	**887,687**	**2,012,165**

Reconciliation of interest-bearing debt, 31.12.2019

		Cash flow 2019		Without cash flow 2019					
Figures in NOK 1,000	Book value 31.12.2018	Additions	Redemption	Additions	Change in value	Amortisation of front-end fee	Reclassification	Translation differences	Book value 31.12.2019
Non-current debt									
Mortgage loan	723,501	0	0	0	0	1,618	0	-21,290	703,829
lease obligations	151,394	0	0	1,185,346	16,332	0	-202,298	242	1,151,016
Total non-current interest-bearing debt	**874,895**	**0**	**0**	**1,185,346**	**16,332**	**1,618**	**-202,298**	**-21,048**	**1,854,845**
Current liabilities									
lease obligations	18,063	0	-66,162	0	0	0	202,298	0	154,199
Total current interest-bearing debt	**18,063**	**0**	**-66,162**	**0**	**0**	**0**	**202,298**	**0**	**154,199**
Total interest-bearing debt	**892,958**	**0**	**-66,162**	**1,185,346**	**16,332**	**1,618**	**0**	**-21,048**	**2,009,044**

Reconciliation of interest-bearing debt, 31.12.2018

		Cash flow 2018		Without cash flow 2018					
Figures in NOK 1,000	Book value 31.12.2017	Additions	Redemption	Additions	Change in value	Amortisation of front-end fee	Reclassification	Translation differences	Book value 31.12.2018
Non-current debt									
Mortgage loan	742,823	0	0	0	0	1,623	0	-20,945	723,501
lease obligations	166,395	0	0	0	0	0	-15,001	0	151,394
Total non-current interest-bearing debt	**909,218**	**0**	**0**	**0**	**0**	**1,623**	**-15,001**	**-20,945**	**874,895**
Current liabilities									
lease obligations	17,371	0	-17,370	3,061	0	0	15,001	0	18,063
Overdraft facility	72,700	0	-72,700	0	0	0	0	0	0
Total current interest-bearing debt	**90,071**	**0**	**-90,070**	**3,061**	**0**	**0**	**15,001**	**0**	**18,063**
Total interest-bearing debt	**999,289**	**0**	**-90,070**	**3,061**	**0**	**1,623**	**0**	**-20,945**	**892,958**

The Group has a non-current mortgage loan denominated in SEK. The non-current mortgage loan is legally placed in the subsidiary VinGruppen Sweden Holding AB in Stockholm, and falls due in its entirety at the end of 2021.

The Group has not hedged the interest rate.

On the establishment of the new loan, a front-end fee was paid, which is capitalised in the statement of financial position and amortized over the duration of the loan.

Maturity in 2020 is presented as current liabilities in the statement of financial position.

See also Note 1 for information about management of financial risk related to debt, and Note 13 for further information about lease agreements.

The agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31.12.2019 the Group was well within the required ratio.

NOTE 20 OTHER PROVISIONS FOR LIABILITIES

Severance pay (non-current)
Provisions for liabilities are associated with severance pay on termination of employment. The plan covered initially 70 employees of the Group who have received severance packages in connection with the restructuring of the companies. The obligations are paid monthly up to 2019 and are presented under other non-current provisions for liabilities. The provision is calculated by discounting future payments including social security contributions at an interest rate which depends on the length of the obligation. As at 31.12.2019 all of this non-current severance pay has been paid out, and there are no remaining provisions related to the scheme.

Severance pay (current)
It has been necessary for the Group to make organisational and staffing adjustments in order to meet new requirements, including new work processes and improved profitability. During this change process, the Group offered a range of personnel policy initiatives to its employees, in order to fulfil the new framework conditions without compulsory downsizing. As at 31.12.2019, the liability associated with this was recognised at NOK 6.1 million.

All of the current liabilities are recognised in the statement of financial position under other current liabilities.

Non-current liabilities

2019 *Figures in NOK 1000*	Book value as at 31.12.2018	Reversed provision 2019	Recognised provision 2019	Translation differences 2019	Book value as at 31.12.2019
Severance pay	92	-92	0	0	0
Non-current provisions for liabilities	**92**	**-92**	**0**	**0**	**0**

2018 *Figures in NOK 1000*	Book value as at 31.12.2017	Reversed provision 2018	Recognised provision 2018	Translation differences 2018	Book value as at 31.12.2018
Severance pay	320	-228	0	0	92
Non-current provisions for liabilities	**320**	**-228**	**0**	**0**	**92**

Current liabilities

2019 *Figures in NOK 1000*	Book value as at 31.12.2018	Reversed provision 2019	Recognised provision 2019	Translation differences 2019	Book value as at 31.12.2019
Severance pay	8,916	-10,479	7,657	27	6,121
Other current liabilities	**8,916**	**-10,479**	**7,657**	**27**	**6,121**

2018 *Figures in NOK 1000*	Book value as at 31.12.2017	Reversed provision 2018	Recognised provision 2018	Translation differences 2018	Book value as at 31.12.2018
Severance pay	2,158	-4,054	10,793	19	8,916
Other provisions	10,000	0	-10,000	0	0
Other current liabilities	**12,158**	**-4,054**	**793**	**19**	**8,916**

NOTE 21 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
31.12.2018		68,023,255	0.02	1,360
31.12.2019		**68,023,255**	**0.02**	**1,360**

20 largest shareholders as at 31.12.2019:	Number of shares	Ownership and voting shares
Canica AS	30,093,077	44.2%
Geveran Trading Co Ltd	6,750,000	9.9%
Verdipapirfondet Dnb Norge	3,441,226	5.1%
Hoff SA	3,297,000	4.8%
Sundt AS	2,399,460	3.5%
Verdipapirfondet Eika Spar	1,943,660	2.9%
Danske Invest Norske Instit. Ii.	1,823,598	2.7%
Folketrygdfondet	1,800,000	2.6%
Verdipapirfondet Eika Norge	1,568,193	2.3%
Goldman Sachs International	1,092,651	1.6%
Centra Invest AS	988,818	1.5%
Danske Invest Norske Aksjer Inst	789,038	1.2%
Rbc Investor Services Bank S.A.	778,250	1.1%
Mutual Fund Localtapiola Consumer	467,243	0.7%
Wenaas Kapital AS Aksjebeholdning	406,923	0.6%
Verdipapirfondet Eika Balansert	398,307	0.6%
Centra Capital AS	355,000	0.5%
Danske Invest Norge II	327,966	0.5%
Avanza Bank AB	311,156	0.5%
Kbl European Private Bankers S.A.	294,753	0.4%
Other shareholders	8,696,936	12.8%
Total	**68,023,255**	**100.0%**

Shareholdings of the Group Management as at 31.12.2019:	Number of shares	Ownership and voting rights
Kenneth Hamnes[1]	148,391	0.2%
Sigmund Toth	30,441	0.0%
Erik Bern	25,609	0.0%
Jan-Erik Nilsen	10,304	0.0%
Per Bjørkum	24,767	0.0%
Erlend Stefansson	69,096	0.1%
Eirik Andersen	19,337	0.0%
Svante Selling	16,410	0.0%
Petra Thorén	0	0.0%
Roar Ødelien	0	0.0%
Total shareholdings of the Group Management	**344,355**	**0.5%**

1. Of these, 126,499 shares are owned via Ekelyveien AS

Portfolio of own shares

The Group from time to time purchases own shares on settlement of share saving programmes for the Group's employees. In 2019, the Group has purchased shares in conjunction with the settlement of matching shares in the first quarter of 2019. See further details of this in Note 7.

The portfolio of own shares is deducted from equity at the acquisition price for the Group.

The table below presents the development in the holding of own shares.

Shares owned by the Group as at 31.12.2019	Total nominal value (TNOK)	Number of shares	Book value (TNOK)	Fair value (TNOK)
Shares owned by Arcus ASA	0	6,948	575	285
Total shares owned by the Group	**0**	**6,948**	**575**	**285**

Shares owned by the Group as at 31.12.2018	Total nominal value (TNOK)	Number of shares	Book value (TNOK)	Fair value (TNOK)
Shares owned by Arcus ASA	4	193,965	8,303	7,953
Total shares owned by the Group	**4**	**193,965**	**8,303**	**7,953**

Development in the number of own shares

Number of shares	2019	2018
Holding of own shares, 1.1.	193,965	0
External purchase of own shares during the period	41,419	220,709
Settlement of matching shares and share savings programme for employees during the period[1]	-228,436	-26,744
Holding of own shares, 31.12	**6,948**	**193,965**

1. In order to finance the payment of tax deductions, some recipients of matching shares chose to physically receive a smaller number of shares, against the Group's payment of the tax. As a consequence, the Group had no need to purchase shares equivalent to the value of all of the shares redeemed. In total, 196,968 physical shares were distributed in conjunction with the redemption of matching shares, as well as 31,468 shares in conjunction with share saving for all employees. See also Note 7.

Dividend and Group contributions

The Board of Directors proposes dividend distribution of NOK 1.66 per share for 2019 (2018: NOK 1.66 per share).

Earnings per share

Earnings per share are calculated on the basis of the profit for the year attributable to the shareholders in the parent company, divided by a weighted average of the number of outstanding ordinary shares for the year, reduced for ordinary shares bought by the company and held as own shares.

The Arcus Group has an incentive scheme for senior executives under which externally owned shares can be diluted by issuing new shares. To take account of this future increase in the number of shares, diluted earnings per share are also calculated, which takes account of a weighted average for the year of the number of outstanding options.

Earnings per share:	2019	2018
Profit for the year	133,287	164,417
Profit for the year attributable to non-controlling interests	5,466	5,954
Profit for the year to the owners of the parent company	**127,821**	**158,463**
Total comprehensive income	126,736	179,007
Total comprehensive income attributable to non-controlling interests	5,104	5,214
Total comprehensive income to the owners of the parent company	**121,632**	**173,793**
Weighted average of the number of outstanding shares	68,023,255	68,023,255
Weighted dilution effect from option scheme	3,409,511	2,060,574
Weighted dilution effect from matching shares	0	291,653
Weighted average holding of own shares	-35,215	-35,432
Weighted average of the number of outstanding shares - diluted	**71,397,551**	**70,340,050**
Earnings per share in NOK	1.88	2.33
Diluted earnings per share in NOK	1.79	2.25
Total comprehensive income per share in NOK	1.79	2.55
Diluted total comprehensive income per share in NOK	1.70	2.47

NOTE 22 TRANSACTIONS WITH RELATED PARTIES

In addition to subsidiaries and associated companies, the Group's related parties are defined as the owners, all members of the Board of Directors and Group executive management, as well as companies in which any of these parties have either controlling interests, Board appointments or managerial positions.

The Group's transactions with related parties:

Purchase of goods and services:

Figures in NOK 1,000	**Relationship**	**Delivery**	**2019**	**2018**
Hoff SA	Shareholder	Raw materials	21,028	21,156
Tiffon SA	Associated company	Raw materials and consumables	57,501	45,456
Destilleriveien 11 AS[1]	Owned by shareholder (Canica AS)	Rent	0	27,570
Draaav Konsult AB	Owned by a former Board member of Vingruppen i Norden AB	Consulting services	0	767
Total purchase of goods and services			**78,529**	**94,949**

Sales of goods and services:

Figures in NOK 1,000	**Relationship**	**Delivery**	**2019**	**2018**
Tiffon SA	Associated company	Market support	1,212	5,880
Total sales of goods and services			**1,212**	**5,880**

Receivables from related parties as at 31.12.:

Figures in NOK 1,000	**Relationship**	**Nature of receivable**	**2019**	**2018**
Tiffon SA	Associated company	Current receivables	0	1,997
Smakeappen AS	Jointly-controlled company	Non-current receivables	506	506
Total receivables from related parties as at 31.12.			**506**	**2,503**

Liabilities to related parties as at 31.12.:

Figures in NOK 1,000	**Relationship**	**Nature of liability**	**2019**	**2018**
Hoff SA	Shareholder	Current liabilities	492	492
Tiffon SA	Associated company	Current liabilities	4,400	7,145
Draaav Konsult AB	Owned by a former Board member of Vingruppen i Norden AB	Current liabilities	0	32
Total liabilities to related parties as at 31.12.			**4,892**	**7,669**

1. The property at Gjelleråsen was transferred from Gjelleråsen Eiendom AS to Destilleriveien 11 AS as from 1 January 2018; both companies are controlled by Canica AS. On 30 April 2018, the property was sold from Destilleriveien 11 to Storebrand, and as from that date the rent is no longer a transaction with related parties.

All transactions with related parties take place on market terms.

Transactions between Group companies:
Agreements have been reached between the companies in the Group on the cost distribution for internal services and joint procurement. This applies chiefly to rent, maintenance and property service functions, as well as shared functions such as finance, IT, payroll, etc. The services are recognised in the various companies' accounts as other income and other operating expenses, respectively.

All buying and selling of goods and services between the companies takes place on market terms and is eliminated in the consolidated financial statements.

NOTE 23 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

2019

Figures in NOK 1,000	Company type	Ownership interest	Book value 01.01.2019	Buy/sell/ issue	Share of profit for the year	Dividend	Other changes	Translation differences	Book value 31.12.2019
Tiffon SA[1]	AC	34.8%	61,172	0	4,251	-447	0	-386	64,590
Smakeappen AS[2]	JCE	50.0%	119	0	-189	0	-11	0	-81
Beverage Link AS[3]	AC	45.0%	0	15	-3	0	0	0	12
Total investments in associated companies and jointly controlled entities			**61,291**	**15**	**4,059**	**-447**	**-11**	**-386**	**64,521**

2018

Figures in NOK 1,000	Company type	Ownership interest	Book value 01.01.2018	Buy/sell/ issue	Share of profit for the year	Dividend		Translation differences	Book value as at 31.12.2018
Tiffon SA[1]	AC	34.8%	58,670	0	2,311	-445	0	636	61,172
Smakeappen AS[2]	JCE	50.0%	0	119	0	0	0	0	119
Total investments in associated companies and jointly controlled entities			**58,670**	**119**	**2,311**	**-445**	**0**	**636**	**61,291**

1. The Group buys Cognac from Tiffon SA, see detailed information on these transactions with associates in Note 22. Tiffon SA has a financial year from 1 July to 30 June. The share of profit from Tiffon is based on an estimated annual profit for the calendar year that is equivalent to the Group's financial year.
2. Smakeappen AS runs an app which gives consumers wine tips and wine importers a useful tool in conjunction with wine fairs. Smakeappen is a cooperation venture between the logistics company Vectura and Hegnar Media. Vectura contributes product data and Hegnar Media has the full editorial responsibility.
3. Beverage Link AS is a jointly-owned distribution company between Vectura AS, Skandinavisk Logistik AS log AS and Cuveco AS. The purpose of the company is to deliver distribution and forwarding services in Norway, including national distribution to the retail market and HoReCa, transport services, incoming and outgoing freight, and customs clearance.

None of the associated companies or jointly controlled entities has listed share prices. The Group's share of the profit from associated companies, after tax is presented on a separate line before Group operating profit.

Summarised financial information regarding associated companies and jointly controlled entities, based on 100 percent:

2019

Figures in NOK 1,000	Total current assets 31.12.2019	Total fixed assets 31.12.2019	Total current liabilities 31.12.2019	Total non-current liabilities 31.12.2019	Total equity 31.12.2019	Operating revenue 2019	Operating expenses 2019	Profit for the year 2019
Tiffon SA	323,860	17,341	26,016	132,214	182,971	130,424	106,457	12,226
Smakeappen AS	295	782	72	1,166	-161	128	-506	-378
Beverage Link AS	24	0	0	0	24	0	-6	-6

2018

Figures in NOK 1,000	Total current assets 31.12.2018	Total fixed assets 31.12.2018	Total current liabilities 31.12.2018	Total non-current liabilities 31.12.2018	Total equity 31.12.2018	Operating revenue 2018	Operating expenses 2018	Profit for the year 2018
Tiffon SA	326,321	16,914	31,700	135,519	176,016	103,724	91,961	6,650

NOTE 24 PLEDGES AND GUARANTEES

Non-current credit financing in SEB

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries, with the exception of the companies in the wine business in Sweden and Finland. At the end of 2019, this Group cash pool system was managed by the parent company, Arcus ASA. The parent company has pledged surety on behalf of all of its subsidiaries, which is linked to the outstanding drawing on this scheme at any time.

The Group's long-term credit financing in SEB has no established pledger of security. For further information about non-current financing, see Note 19.

Surety guarantee related to financial leasing

One of the Group's subsidiaries, Arcus-Gruppen AS, has pledged a surety guarantee for leased assets (financial leasing) with Nordea Finans. At the end of 2019, the surety guarantee amounted to TNOK 162,766 for the Group's own leased operating equipment. See also Note 13 concerning lease agreements and Note 19 concerning interest-bearing debt.

NOTE 25 BUSINESS MERGERS

Purchase of shares in Wongraven Wines AS
Since 2014, Wongraven Wines has cooperated with the Arcus Group on the sale of quality wines in Norway, via the subsidiary Symposium Wines AS. On 2 December 2019, Vingruppen AS acquired 90 percent of Wongraven Wines AS. In cooperation with founder and minority shareholder Sigurd Wongraven, the Group has plans to expand the company's sales area to the rest of the market outside Norway where the Group is already represented.

A provisional acquisition analysis is presented below, based on the company's statement of financial position as of the acquisition date:

Figures in NOK 1,000	Recognised value of acquired business	Observable excess values	Fair value of acquired business
Brands	12	49,700	49,712
Receivables	1,449	0	1,449
Bank deposits	198	0	198
Deferred tax	0	10,934	10,934
Tax payable	-3	845	842
Trade payables	40	0	40
Unpaid public duties	170	0	170
Other current liabilities	262	0	262
Fair value, observable net assets			**39,111**
Acquisition value			50,888
Goodwill			**11,777**

Observable excess values are assessed to be the Wongraven brand. On acquisition, goodwill is the part of the net excess value that is not identifiable Calculated goodwill is capitalised in the consolidated statement of financial position based on the expectation that synergies with the Group's existing operations will provide opportunities for increased earnings in the future. The acquisition analysis is provisional, since the final acquisition statement of financial position was not completed on the statement of financial position date.

The purchase of these shares entailed a net outlay for the Group of TNOK 50,690 after deduction of the bank holding in the company on the purchase date. In addition the Group recognised TNOK 726 as acquisition costs.

The non-controlling interest on the acquisition date is booked as the minority's share of the book value of the company's equity.

Impact on the profit for the year of the acquired business:

Figures in NOK 1000	2019 during the Group's ownership	2019 full year
Sales revenue	1,323	6,537
Total operating revenue	**1,323**	**6,537**
Salaries and other personnel costs	76	-661
Other operating expenses	-148	-1,013
Total operating expenses	**-72**	**-1,674**
Operating profit	**1,251**	**4,863**

NOTE 26 COMPANIES IN THE GROUP

The consolidated financial statements for 2019 concern the following subsidiaries and associated companies:

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Arcus ASA (parent company)	Nittedal	NOK	1,360	
Subsidiaries				
Arcus-Gruppen AS	Nittedal	NOK	276,552	100%
Vectura AS	Nittedal	NOK	14,014	100%
Shares owned by Arcus-Gruppen AS				
Arcus Norway AS	Nittedal	NOK	62,100	100%
Arcus Denmark AS	Copenhagen	DKK	10,324	100%
Det Danske Spiritus Kompagni A/S	Copenhagen	DKK	6,500	100%
Vingruppen AS	Nittedal	NOK	60	100%
VinGruppen Sweden Holding AB	Stockholm	SEK	50	100%
Arcus Deutschland GmbH	Bremen	EUR	500	100%
Shares owned by Arcus Norway AS				
Arcus Sweden AB	Stockholm	SEK	100	100%
Arcus Finland OY	Helsinki	EUR	311	100%
BevCo AS	Nittedal	NOK	600	100%
Atlungstad Håndverksdestilleri AS	Stange	NOK	30	100%
Stockholms Spritfabrik AB	Stockholm	SEK	50	100%
De Lysholmske Brenneri- og Destillasjonsfabrikker ANS	Nittedal	NOK	0	100%
Oplandske Spritfabrik ANS	Nittedal	NOK	0	100%
Løiten Brænderis Destillation ANS	Nittedal	NOK	0	100%
Siemers & Cos Destillasjon ANS	Nittedal	NOK	0	100%
Shares owned by VinGruppen Sweden Holding AB				
Vingruppen i Norden AB	Stockholm	SEK	4,192	100%

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Shares owned by Vingruppen AS				
Arcus Wine Brands AS	Nittedal	NOK	100	100%
Vinordia AS	Nittedal	NOK	968	100%
Symposium Wines AS	Nittedal	NOK	500	90%
Vinuniq AS	Nittedal	NOK	100	100%
Excellars AS	Nittedal	NOK	181	100%
Heyday Wines AS	Nittedal	NOK	100	70%
Classic Wines AS	Nittedal	NOK	30	100%
Creative Wines AS	Nittedal	NOK	30	100%
Wongraven Wines AS	Nittedal	NOK	30	90%
Shares owned by Symposium Wines AS				
Hedoni Wines AS	Nittedal	NOK	30	90%
Shares owned by Arcus Wine Brands AS				
Arcus Brand Lab AS	Nittedal	NOK	30	100%
Arcus Co Brands AS	Nittedal	NOK	30	100%
Shares owned by Vingruppen i Norden AB				
Vinunic AB	Stockholm	SEK	145	100%
WineWorld Sweden AB	Stockholm	SEK	500	90%
The WineAgency Sweden AB	Stockholm	SEK	100	90%
Valid Wines Sweden AB	Stockholm	SEK	1,100	83%
Arcus Winebrands Sweden AB	Stockholm	SEK	50	100%
Social Wines OY	Helsinki	EUR	8	94%
Vinum Import Oy	Åbo	EUR	3	88%
Vingruppen Oy	Helsinki	EUR	3	100%
Shares owned by Wineworld Sweden AB				
Wineworld Finland Oy	Helsinki	EUR	220	76%
Quaffable Wines Sweden AB	Stockholm	SEK	100	72%
Shares owned by Vinunic AB				
Vingaraget AB	Stockholm	SEK	50	100%

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Owned by The WineAgency Sweden AB and WineWorld Sweden AB				
Your Wineclub Sweden AB	Stockholm	SEK	50	90%
Shares owned by Social Wines Oy				
Vinunic Oy	Helsinki	EUR	3	94%
Brews4U Finland Oy	Helsinki	EUR	3	85%
Shares owned by Quaffable Wines Sweden AB				
New Frontier Wines AB	Stockholm	SEK	50	72%
Associated company				
Tiffon SA	Jarnac	EUR	1131	35%
Smakeappen AS	Oslo	NOK	100	50%
Beverage Link AS	Nittedal	NOK	33	45%

Profit, dividends and equity attributable to non-controlling interests

Figures in NOK 1,000	Profit shares attributable to non-controlling interests in 2019	Accumulated non-controlling interests 31.12.2019 (assuming that put options are not exercised)*	Accumulated non-controlling interests 31.12.2019 (assuming that put options are exercised)*	Dividend distributed to non-controlling interests in 2019
Symposium Wines AS	803	1,482	0	-612
Heyday Wines AS	-80	379	0	-545
WineWorld Sweden AB	1,805	6,393	0	-918
The WineAgency Sweden AB	1,379	4,937	0	-918
Social Wines OY	109	1,418	0	-117
Vinum Import Oy	433	1,604	1,604	-232
Other companies with minority interests	1,017	4,026	2,292	0
Total	**5,466**	**20,240**	**3,896**	**-3,342**

Since the Group does not have control of this exercising, the Group's book equity is subject to the assumption that the options are exercised.

Figures in NOK 1,000	Profit shares attributable to non-controlling interests in 2018	Accumulated non-controlling interests 31.12.2018 (assuming that put options are not exercised)*	Accumulated non-controlling interests 31.12.2018 (assuming that put options are exercised)*	Dividend distributed to non-controlling interests in 2018
Symposium Wines AS	515	1,259	0	-920
Heyday Wines AS	548	1,004	0	-68
WinewWorld Sweden AB	1643	5,674	0	-3,177
The WineAgency Sweden AB	1381	4,619	0	-1,367
Social Wines OY	337	1,428	0	-95
Vinum Import Oy	351	1435	1,435	-170
Other companies with minority interests	1179	2,822	1,530	0
Total	**5,954**	**18,241**	**2,965**	**-5,797**

* Several of the subsidiaries' general managers have non-controlling interests, and most of these general managers have put options linked to their interests that can be exercised at a given time in the future. The Group does not have control of these shares at the of the period, nor does it have control of the possible exercising of the put options. The table above presents accumulated non-controlling interests, subject to both the assumption that the options are exercised and that they are not exercised.

Key figures for companies with significant non-controlling interests in the Group

2019

Figures in NOK 1,000	Symposium Wines AS	Heyday Wines AS	WineWorld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenue	146,173	37,527	200,249	254,849	98,875	56,454
Other operating revenue	0	0	673	1,535	1,931	424
Operating expenses excluding depreciation	-135,037	-37,534	-178,024	-238,693	-98,343	-52,275
Depreciation	0	0	-13	-18	-20	-10
Operating profit	**11,136**	**-7**	**22,885**	**17,673**	**2,443**	**4,593**
Net financial profit	597	-248	-59	60	-158	-49
Tax	-2,620	50	-4,780	-3,939	-473	-936
Profit for the year	**9,113**	**-205**	**18,046**	**13,794**	**1,812**	**3,608**
Fixed assets	96	135	2,775	382	3,636	217
Current assets	47,982	10,904	106,024	103,788	51,400	37,438
Assets	**48,078**	**11,039**	**108,799**	**104,170**	**55,036**	**37,655**
Equity	4,173	1,326	63,932	49,364	24,860	13,586
Liabilities	43,905	9,713	44,867	54,806	30,176	24,069
Equity and liabilities	**48,078**	**11,039**	**108,799**	**104,170**	**55,036**	**37,655**

2018

Figures in NOK 1,000	Symposium Wines AS	Heyday Wines AS	WineWorld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenue	130,291	31,694	205,280	227,577	220,182	101,689
Other operating revenues	0	0	-2,950	-4,302	197	-756
Operating expenses excluding depreciation	-122,221	-29,053	-181,146	-205,504	-213,146	-91,013
Depreciation	0	0	-4	-21	-26	0
Operating profit	**8,070**	**2,641**	**21,180**	**17,750**	**7,207**	**9,919**
Net financial profit	609	-259	-38	74	-14	0
Tax	-2,030	-555	-4,719	-4,009	-1,434	-857
Profit for the year	**6,649**	**1,827**	**16,423**	**13,814**	**5,759**	**9,062**
Fixed assets	388	85	2,951	484	678	409
Current assets	45,356	11,875	108,004	94,367	59,662	33,854
Assets	**45,744**	**11,960**	**110,955**	**94,851**	**60,340**	**34,263**
Equity	4,187	1,530	56,747	46,178	25,441	12,065
Liabilities	41,557	10,430	54,208	48,673	34,899	22,197
Equity and liabilities	**45,744**	**11,960**	**110,955**	**94,851**	**60,340**	**34,263**

NOTE 27 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

Since the COVID-19 outbreak, Arcus' business segments have managed to keep operations stable. Supply of wine and other raw materials, has more or less been according to plan due to close cooperation with our partners. At our production and bottling facility, there have been no major disruptions. Sales of wine and spirits to Vinmonopolet has been higher than normal. The main reasons are strongly reduced sales to Duty Free Travel Retail, hotels, restaurants and cafés, and strongly reduced shopping at the Swedish border. Logistics has had high activity due to increased demand at Vinmonopolet, and operation and deliveries have been very close to plan.

No employees have so far reported COVID-19 infection. By mid-April 3,7 percent of the employees were temporarily laid off. All temporary layoffs in Arcus are related to reduced sales to hotels, restaurants and bars. To minimize temporary layoffs, some of these employees have worked in our production, to fill vacant positions.

The Group's overdraft facility at SEB has been increased from 600 MNOK to 800 MNOK to provide additional liquidity reserves during the potentially volatile situation caused by the COVID-19 outbreak. The due date on the group's term loan has also been extended by one year to 1 December 2022.

Given the challenging situation faced by some of our customers we are closely monitoring the situation and taking appropriate actions to mitigate the risk of credit losses. We currently estimate that the effect will be relatively moderate and have made appropriate extraordinary provisions for expected losses in our Q1 accounts.

On 11 March, Arcus announced that Vectura and Cuveco were assessing the possibility of a merger. In an industry subject to strong competition and low margins, the two parties would like to establish a company that, over time, can develop even better services. A merger would make it possible to achieve a size that makes it easier to invest for the future in automation, digitalisation and sustainable solutions. The new company would gradually be able to offer a better and broader range of services to its many customers. The Norwegian Competition Authority (Konkurransetilsynet) has approved the possible merger between Vectura and Cuveco. The merger project will then move on to the next stage of negotiations and planning.

Accounting policies

The consolidated financial statements for 2019, including comparative information, have been prepared in accordance with IFRS applicable as at 31 December 2019, and as described in the accounting policies. Applicable IFRS have been applied retrospectively.

The annual financial statements were adopted by the Board of Directors on 29 April 2020. The Group's head office is located at Gjelleråsen in Nittedal Municipality and the core business are the production, sale and distribution of alcoholic beverages. The Group's domestic market is the Nordic region, but the Group also has sales to other countries, mainly Germany and the USA.

Arcus ASA is listed on the Oslo Stock Exchange. The price on 31.12.2019 was NOK 36.50 per share, compared to NOK 41.00 per share at the end of 2018.

NEW ACCOUNTING STANDARDS

IFRS 16 Leases

As from 1 January 2019, changes were introduced in the framework from IFRS concerning the booking of lease agreements (IFRS 16). The Group has implemented this standard according to a modified retrospective method and this implementation significantly affected the Group's financial statements.

See further details of this in Note 13 to the consolidated financial statements.

IFRS 3 Business combinations

The changes to IFRS 3 clarify that when a company gains control of a jointly-controlled entity, the requirements of a business combination achieved by acquisition in stages will apply. This includes new measurement of previous interests in assets or liabilities in the jointly-controlled entity, at fair value. In this way, the buyer must measure their entire former interest in the jointly-controlled entity.

The Group has applied these changes to business combinations with an acquisition date after 1 January 2019.

These changes have not affected the consolidated financial statements, as there have not been any transactions whereby control was achieved.

The most important changes to the accounting standards that will affect the Group in the future are presented below.

IFRIC 23 Uncertainty over income tax treatments

The interpretation clarifies how uncertain tax positions are to be reflected in IFRS accounts. Uncertain tax positions arise when it is unclear how current tax law applies to a particular transaction or circumstance, and when it is uncertain whether the tax authorities will approve a company's tax treatment. The interpretation does not apply to taxes or duties outside the scope of IAS 12, nor does it include specific requirements concerning interest or fines due to uncertain tax treatment. The interpretation considers the following in particular:

- Whether a company assesses uncertain tax payments separately.
- The assumptions made by an entity concerning the investigation of tax treatment by the tax authorities.
- How an entity determines the tax-liable profit (tax loss), tax basis, unused taxable loss, unused tax credits and tax rates.
- How an entity assesses changes in facts and circumstances.

The Group must determine whether they are to assess each uncertain tax position separately, or together with one or several other uncertain tax positions, and use the approach that is best estimated to give the best solution to the uncertain tax position.

After adopting the interpretation, the Group will assess whether is has any uncertain tax positions, in particular concerning internal pricing between companies in different countries within the Group. The Group's and several of the subsidiaries' tax registrations are in different jurisdictions, and include deductions related to internal prices that may be challenged by the tax authorities.

The interpretation enters into force as from 1.1.2019, and has not had any great impact on the consolidated financial statements.

Adopted IFRS and IFRIC with future effective dates:

The standards and interpretations adopted up to the date of presentation of the consolidated financial statements, but where the effective date is in the future, are shown below. The Group's intention is to implement the relevant changes on the effective date, subject the assumption that the EU approves the changes before the presentation of the consolidated financial statements.

CHANGES RELEVANT TO THE ARCUS GROUP:

IAS 1 Presentation of financial statements

IASB has adopted changes to the description of the materiality concept in IAS 1 Presentation of financial statements, and IAS 8 Accounting policies, changes in accounting estimates and errors. The new definition of materiality is that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Use of the term "obscuring" indicates that the definition must not only ensure that all material information is included, but must also prevent information that is not material being given, which might draw attention away from or conceal the material information,

The changes enter into force on 1 January 2020, but are not expected to have any great impact on the consolidated financial statements.

Other changes

Other changes resulting from new standards that have yet to come into effect will not influence or have any significant effect on the consolidated financial statements.

Accounting policies

Consolidation principles

The consolidated financial statements comprise Arcus ASA and subsidiaries in which Arcus ASA has control, and present the overall financial results, the overall financial position, and the overall cash flows, as one financial entity. Control takes place when the Group is entitled to variable returns from an investment object, and can also influence relevant activities which affect the returns on the investment object. Normally this will be the company in which Arcus ASA, either directly, or indirectly via subsidiaries, owns more than 50 percent of the shares with voting rights. In the consolidated financial statements, this Group is referred to as Arcus or the Arcus Group.

See Note 26 for an overview of all the companies included in the consolidation.

In the consolidated financial statements, all intra-Group receivables and internal transactions between companies within the Group have been eliminated. The cost price of shares in subsidiaries is eliminated against equity at the time of acquisition. Accounting values including goodwill and excess values associated with foreign subsidiaries are translated from the functional currency to NOK according to the exchange rate at the close of the financial year.

Goodwill is included in the consolidated financial statements as an intangible asset.

Any changes in the Group's ownership of a subsidiary, without any loss of control, is recognised as an equity transaction. If the Group loses control of a subsidiary, underlying assets (including goodwill), debt, non-controlling interests and other equity components are deducted, while gains and losses are recognised in the income statement. Any remaining investment is recognised at fair value.

Non-controlling interests
Non-controlling interests' share of profit after tax is shown on a separate line after the Group's profit for the year. Non-controlling interests' share of equity is shown on a separate line as a part of the Group's equity.

In some subsidiaries with non-controlling interests there are sales and/or purchase options related to the non-controlling interests, where the Group does not have control of the non-controlling interests before the options are exercised, nor does it have control of whether the options are exercised, or when this may have taken place. The value of such options is recognised as obligations at fair value in the statement of financial position, and reduces the non-controlling share of equity.

As at 31.12.2019, the following exchange rates are used on translating income and financial position figures from subsidiaries with functional currencies other than NOK:

Exchange rates		2019	2018
EUR average rate	Income statement items	9.8540	9.6033
EUR closing rate	Financial position items	9.8807	9.9448
SEK average rate	Income statement items	0.9308	0.9365
SEK closing rate	Financial position items	0.9426	0.9711
DKK average rate	Income statement items	1.3198	1.2885
DKK closing rate	Financial position items	1.3228	1.3319

The profit shares are presented in the consolidated income statement as non-controlling interests' share of the result, but since the Group has recognised the obligation for the options against the non-controlling share of equity, the result related to non-controlling interests is adjusted for distributed dividend and translation differences transferred to the majority's share of equity at the end of each reporting period.

Currency
All transactions in foreign currency are translated to functional currency as of the date of the transaction. Monetary items in foreign currency are translated as of the close of the financial period to functional currency using the exchange rate as of the close of the financial period.

The Group's presentation currency is NOK, which is also the parent company's functional currency.

The functional currency of subsidiaries is the currency in which the subsidiary reports its financial statements. On consolidation of subsidiaries that have a functional currency other than NOK, items of income and expenses are converted to the Group's presentation currency in accordance with average translation rates. This means that at the end of each period, items of income and expenses are translated at the average exchange rate to date in the year. For the statement of financial position, including excess values and goodwill, the closing exchange rate as of the close of the financial period is used. Currency differences arising on consolidation of entities with another functional currency are attributed to equity and presented as other comprehensive income in the consolidated statement of other comprehensive income. On disposal of subsidiaries, accumulated translation differences associated with the subsidiary are charged to the statement of income.

Investments in associated companies and jointly controlled entities
Associated companies are companies in which the Group has significant influence, normally between a 20 and a 50 percent holding. The equity method is used for associated companies in the consolidated financial statements. Excess value analysis is performed with regard to the acquisition of interests in associated companies. The share of profit is based on profit after tax in the company in which investment has been made, with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired book value of equity. The share of profit is shown in the statement of income on a separate line before operating profit and the investment is shown as a line under financial fixed assets.

Jointly controlled companies are investments in which the Group has an agreement on joint control of an entity together with one or more other parties, when none has decisive influence and all strategic, financial and operational decisions concerning the entity require unanimity between the parties. The share of profit is based on profit after tax in the company in which investment has been made, with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired book value of equity. The share of profit is shown in the statement of income on a separate line before operating profit, and the investment is shown as a line under financial fixed assets.

Business mergers
Business mergers in the Group are treated according to the acquisition method and present the Group as a single entity. On acquisition, the cost price of the acquired business is allocated so that the

consolidated opening statement of financial position reflects the estimated fair value of the acquired assets and liabilities. To determine fair value on acquisition, alternative methods of determining fair value must be used for assets for which there is no active market. Added value in excess of what is attributable to identifiable assets and liabilities is reported as goodwill. If the fair value of the equity in the acquired company exceeds the consideration, a reassessment is made of the valuation of observable assets and liabilities. If the reassessment reveals no discrepancies, the difference is recognised as income as at the acquisition date. The allocation of the cost price of the business merger must be changed if new information is revealed about the fair value applicable at the time of acquisition and up until the final excess value analysis. This must take place within 12 months of the acquisition date.

With each business acquisition, the non-controlling interest will be measured at fair value, and non-controlling interest's share of goodwill is capitalised in the consolidated statement of financial position.

On stepwise acquisition of subsidiaries, the basis is the value of assets and liabilities on the date of the establishment of the Group. Subsequent acquisition of ownership of existing subsidiaries in addition to the majority interest will not affect the assessment of assets or liabilities.

Revenue recognition principles

The Group's revenue recognition principles are presented in a separate note (Note 3) to the consolidated financial statements.

Other income and expenses

To provide more information in the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. See also the detailed specification of what these items include in the notes relating to the individual line items.

Inventories

Inventories are valued at the lower of acquisition cost/production cost and net selling value, where net selling value is calculated as the selling price in a transaction with market participants on the measurement date less selling expenses. Purchased inventories are valued at acquisition cost according to the principle of weighted average, with deduction for obsolescence, while inventories produced in-house are valued at production cost according to the principle of full costing, with deduction for obsolescence.

Prepayments to suppliers

Prepayments to suppliers apply to financing the purchase of inventory for individual partners. Prepayments are shown at nominal value after deduction for provisions for expected losses. Provisions for losses are made on the basis of identified indicators of impairment.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, balances in the Group cash pool system and other means of payment with a due date less than three months from the acquisition date.

The Group's cash pool system is connected with cash and bank overdrafts within the same cash pool system and is presented net.

The Group cash pool system is managed by the parent company, Arcus ASA.

Tangible fixed assets and rights of use

Tangible fixed assets are capitalised at cost price less accumulated depreciation and accumulated loss on non-transitory impairment. Depreciation is calculated and taken to expenses from the date the fixed asset is taken into use, and is calculated on the basis of expected useful life, taking account of estimated residual value.

Different rates of depreciation are used for a fixed asset's components if these have different economic lives. Assets under construction are not depreciated. Depreciation is only taken to expenses when the asset is ready for use. Profit and loss on sale of fixed assets are determined as the difference between the selling price and the book value at the time of sale. Profits on sales of fixed assets are recognised as operating income and losses as operating expenses. If there are indications of impairment, the amount recoverable is estimated in order to assess any loss through the impairment. If the book value exceeds the amount recoverable, the asset is written down to recoverable value while the remaining depreciation period is maintained (breakpoint solution). Depreciation methods, residual values and estimated life are continuously assessed.

Rights of use are capitalised at present value of the leased equipment's nominal lease payments, with deduction for accumulated depreciation. Capitalised values and depreciation are calculated and booked as from the date of establishment of the lease agreement, and the depreciation term is normally set as the agreed duration of the lease agreement. In cases where the lease agreement includes options for renewal or early redemption, the probability that the options are exercised is assessed. If this probability is assessed to exceed 50 percent, the present value is calculated on the basis of the duration of the lease agreement, taking due account of the term of the option, and the depreciation term is set equivalently.

If a lease agreement is terminated before the agreed term of the contract has run, the right of use on the termination date is deducted. Gains and losses are calculated on the basis of the difference between the book value of the right of use on the termination date and the book value of the remaining obligation related to the same lease agreement.

For further information concerning the recognition and capitalisation of lease agreements, see Note 13 to the consolidated financial statements.

Intangible assets

Intangible assets comprise brands, software and goodwill. Intangible assets are capitalised at cost price with deduction for accumulated depreciation and accumulated write-downs in the event of non-transitory impairment.

Intangible assets with limited useful lives are depreciated by the straight-line method over the expected useful life.

The capitalised value of goodwill, brands and other intangible assets with indeterminate lifetime is tested for impairment at least once a year, or more often if there are indications that the value of the asset has decreased. This requires estimates of the recoverable amount (value in use) for cash-generating entities to which goodwill and other intangible assets are attributed.

To determine the recoverable amount (value in use), the Group estimates expected future pre-tax cash flows from the cash-generating unit and applies appropriate discount rates in order to calculate the present value of future cash flows. Cash flows for brands are calculated on the basis of a market-based "relief from royalty" method before tax. See Note 12 for a more detailed description of this model.

Expectations regarding future cash flows will vary over time. Changes in the market conditions and expected cash flows may cause losses in the event of impairment in the future. The most important assumptions with significance for the present value of the cash flows associated with the investments are future profits and growth, as well as the discount rate used.

Pensions
Net pension costs for defined benefit plans comprise the period's service cost, including future growth in salaries and interest rates on the estimated obligation, less expected returns on the pension assets. Prepaid pension is shown as a non-current asset in the statement of financial position where it is probable that the over-financing can be used or repaid. Correspondingly, a non-current liability is shown in the accounts when the pension obligation is greater than the pension assets. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations), are recognised against equity and are presented in the statement of other comprehensive income.

The Group also has defined contribution pension plans, which are schemes whereby the company pays contributions on an ongoing basis to the employees' individual pension plans. Ongoing premium invoices of this kind are expensed as salaries and other personnel costs.

Restructuring
Provisions for restructuring are recognised as expenses when the programme has been adopted and announced and the costs are identifiable and quantifiable. Provisions linked to restructuring are included as other provisions for liabilities calculated at present value. Agreements securing future work input are recognised as expenses over the period in which the work input is delivered.

Taxes
The tax expense comprises both tax payable and the change in deferred tax. Tax payable is based on taxable income for the year. Taxable income is different from the profit before tax as presented in the statement of income due to income and expenditure items that are not taxable/deductible (permanent differences) and due to the change in differences in taxable and accounting accruals (temporary differences). Tax payable is calculated on the basis of tax rates that had been adopted at the end of the period.

Deferred tax is capitalised on the basis of the temporary differences and any deficit to be carried forward existing at the end of the financial year and that involves increased or reduced future tax payable, when these differences are reversed in future periods. Temporary differences are differences between accounting and taxable results arising during a period and are reversed during a later period. Deferred tax is calculated on the basis of nominal tax rates (rates adopted as of the close of the financial year in the individual country) multiplied by temporary differences and the deficit to be carried forward. Deferred tax assets are capitalised when the probability exists that future taxable income will enable utilisation of the asset.

Share-based payment
The Group has two share-based incentive schemes for senior executives, and a general share savings programme for all employees.

The costs related to the two share-based incentive schemes for senior executives are accrued during the vesting period, which is the period between the allocation date and the date of redemption. The costs which are accrued are the calculated value of the matching shares or options as of the allocation date, and this value is not adjusted during the vesting period. These costs are booked as personnel costs, set off to Group equity.

The related employer tax is in principle accrued during the same period. The costs of the employer tax in each period are calculated on the basis of the fair value of the matching shares or options. The costs for the period comprise the change in provisions, and are booked as personnel costs, set off as debt in the statement of financial position.

The costs related to these programme are recognised in accordance with IFRS 2.

The general share savings programme for all employees is based on the Group selling shares to the employees below market value. The costs related to this programme are recognised by booking the difference between the market value of the shares and the purchase price for the employees as personnel costs.

Classification principles
Other assets included in the operating cycle or falling due within 12 months are classified as current assets. Remaining assets are classified as fixed assets.

Liabilities included in the operating cycle or falling due within 12 months, where there is no unconditional right to defer settlement, are classified as current liabilities. Remaining liabilities are classified as long term.

Proposed dividend are capitalised in the statement of financial position as a liability when the Group has an irrevocable obligation to make dividend payments, normally after adoption by the annual general meeting.

Measurement and classification of financial instruments
The Group books financial instruments in accordance with IFRS 9. This new standard provides combined rules for all three aspects concerning recognition of financial instruments in the accounts: classification and measurement; impairment write-downs and hedge accounting.

(a) Classification and measurement
In accordance with IFRS 9, debt instruments are measured at fair value through profit or loss, amortised cost, or fair value through total comprehensive income (OCI). The classification is based on two criteria: the Group's business model for management of assets; and whether the instrument's contractual cash flows solely represent "payment of principal and interest".

The valuation of whether contractual cash flows for debt instruments solely comprise principal and interest was factually based on initial recognition of the assets.

Financial instruments at fair value via profit or loss
Financial instruments are recognised in the statement of financial position when the Group has become party to the instrument's contractual provisions, and deducted when the contractual rights or obligations are fulfilled or cancelled, or have expired or been transferred. Financial instruments are classified as current assets if the expected settlement date is within 12 months of the close of the financial year, and as non-current assets if the settlement date is later than 12 months after the close of the financial year Derivatives are classified as financial instruments at fair value through profit or loss, unless they form part of a hedge. Assets and liabilities in this category are

classified as current assets or current debt if it is expected that they will be settled within 12 months; otherwise they are classified as financial assets or non-current debt.

Debt instruments at amortised cost
Assets in the category of debt instruments at amortised cost are financial assets that are not derivatives and which have contractual cash flows which solely represent the principal and any interest, and are not traded in an active market. Any value changes as a consequence of interest rate changes are not recognised.

They are classified as current assets unless they fall due more than 12 months after the close of the financial year. Financial assets in the category of debt instruments at amortised cost comprise trade receivables and other receivables, as well as cash and cash equivalents in the statement of financial position. Financial liabilities in the category of debt instruments at amortised cost are debt to financial institutions, trade payables and other current liabilities.

Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Sold accounts receivable that are included in the factoring agreement are presented as reduced accounts receivable in the statement of financial position.

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Financial liabilities related to lease agreements are recognised on the recognition date at the estimated present value of future lease payments.

Financial liabilities are recognised at amortised cost based on an effective interest-rate method. Transaction costs (arrangement charges) are capitalised in the statement of financial position as part of the book value of the loan, and amortized over the period of the loan. Obligations in currencies other than the functional currency are translated at the exchange rate at the close of the financial year.

For measurement of financial liabilities at fair value, see measurement of financial instruments in Note 1.

Equity investments in non-listed companies are classified and measured as financial instruments at fair value via total comprehensive income (OCI).

(b) Write-down of expected losses on receivables and debt
A significant share of the Group's revenue is associated with the state monopolies in the Nordic region, where there is not considered to be any credit risk. The Group's credit risk is otherwise spread over a large number of small customers within the HORECA market, as well as a small number of distributors outside the home markets.

On this basis, the Group applies a simplified approach to the calculation of expected credit losses. The Group does not track changes in credit risk, but instead assesses losses on the basis of the experienced credit loss on each reporting date. The Group has established a provisions matrix that is based on historical credit loss, adjusted for forward-looking factors that are specific to the debtors and the economic environment.

(c) Hedge accounting
The Group has derivatives that are defined for hedging purposes, but does not use the hedge accounting rules.

Categorisation of financial assets and debt
The Group's measurement of financial assets, debt and other financial instruments at fair value can be divided into three categories:

Level 1: Listed (unadjusted) prices in active markets.
Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.
Level 3: Techniques for calculation of fair value based on other than observable market data.

Leases
As from 2019, the Group's booking of lease contracts has changed significantly as a consequence of the implementation of IFRS 16. As from 2019, all significant lease agreements are capitalised as rights of use and depreciated over the lifetime of the lease agreement.

For further details of the accounting principles related to lease agreements, see the accounting principles concerning Tangible fixed assets and rights of use, and Note 13 to the consolidated financial statements concerning lease agreements.

Statement of cash flows
The indirect method is used in the preparation of the statement of cash flows. Bank deposits, cash and cash equivalents in the statement of financial position are defined as holdings of bank deposits, cash and cash equivalents in the statement of cash flows.

Segment information
Operating segments are reported in the same way as for internal reporting to the Group Management. The Group's business areas comprise Spirits, Wine and Logistics and decisions within each business area are taken by the Group CEO.

The Group's business consist of sales and marketing of Spirits, sales and marketing of Wine, and Distribution of spirits and wine.

The Spirits business area comprises the following companies: Arcus Norway AS with subsidiaries, Det Danske Spiritus Kompagni A/S, Arcus Denmark A/S, Arcus Sweden AB, Arcus Finland Oy and Arcus Deutschland GmbH.

The Wine business area comprises the following companies: Vingruppen Sweden Holding AB and subsidiaries, and Vingruppen AS and subsidiaries.

The Logistics business area comprises Vectura AS.

In addition, there are the remaining Group income and expenses, as well as financing costs, that comprise Arcus-Gruppen AS and Arcus ASA.

The Group does not present the segments' assets or liabilities as this is not part of the Group's internal reporting.

For further information about the Group's operating segments, see Note 2.

Related parties
The Group's related parties, in addition to subsidiaries, associated companies and jointly controlled companies, are defined as the owners, all members of the Board of Directors and Group Management, and companies in which any of these parties either have controlling interests, Board appointments, or are senior employees.

All transactions between Group companies and related parties are made on market terms.

Important accounting estimates and discretionary assessments
Preparation of the annual financial statements requires management to make estimates and assumptions that affect the value of assets, liabilities and conditional liabilities in the statement of financial position, and income and expenses for the financial year.

Areas in which estimates have major significance are:
Figures in NOK 1,000

Accounting item	Note	Assumptions	Book value 2019	Book value 2018
Goodwill	15	Present value of future cash flows	1,048,185	1,042,130
Brands	15	Present value of future cash flows	853,965	815,009
Other intangible assets	15	Recoverable amounts and correct useful life	21,033	26,752
Tangible fixed assets	14	Recoverable amounts and correct useful life	151,973	315,839
Rights of use	13	Present value of future cash flows	1,279,262	0
Deferred tax assets	12	Assessment of the ability to exploit tax assets in the future	86,100	110,356
Pension obligations	10	Economic and demographic assumptions	23,724	21,077
Liabilities at fair value through profit or loss	22	Present value of future cash flows	69,343	74,218
Provisions	23	Correct basis for estimate calculations	6,121	9,008

Future events and changes in the regulatory framework may mean that estimates and assumptions must be changed, while new opinions and interpretations of standards may entail that the choice of principles and presentation will be changed. Estimates and underlying assumptions are examined and evaluated continuously, and changes in accounting estimates are recognised in the period in which the estimates are changed.

Present value estimates of future cash flows are affected by correct assumptions and estimates of future cash flows and estimates of return requirements. Return requirements are determined using the capital asset pricing model (CAPM) and assumptions in using the CAPM are: risk-free interest; market risk premium; and beta.

The areas with greatest risk of substantial changes are capitalised goodwill, brands, and tax assets and liabilities at fair value via profit/loss, on the basis that the capitalised sums are substantial, and that considerable discretion may be exercised. The estimates are based on assumptions concerning future cash flows that are discounted at a selected discount rate.

Estimates and assumptions are described in the various notes.

Alternative performance measurements

In the discussion of the reported operational results, statement of financial position and cash flows, the Group refers to a number of parameters for alternative performance measurements. These are not defined in the general accounting policies, as for IFRS.

The executive management of the Arcus Group frequently uses these parameters for alternative performance measurements and believes that, in combination with comparable parameters defined in ordinary accounting policies, these are of great value to investors wishing to understand the Group's business, ability to fulfil its commitments, and the ability to monitor the development of new business opportunities. These alternative performance measurements should not be seen in isolation, but, as the name indicates, are an alternative to more well-known performance measurement parameters as defined in international accounting standards.

Below, the Group's parameters for alternative performance measurements are defined.

Gross profit
The Arcus Group defines gross profit as total operating revenue less cost of sales.

Figures in NOK 1000	**2019**	**2018**
Group		
Sales revenue	2,710,374	2,672,615
Other operating revenue	52,403	50,586
Total operating revenue	**2,762,777**	**2,723,201**
Cost of sales	-1,601,113	-1,577,306
Gross profit	**1,161,664**	**1,145,895**

Figures in NOK 1000	**2019**	**2018**
Spirits		
Sales revenue	811,555	762,447
Other operating revenue	164,024	157,151
Total operating revenue	**975,579**	**919,598**
Cost of sales	-491,295	-447,962
Gross profit	**484,284**	**471,636**

Figures in NOK 1000	**2019**	**2018**
Wine		
Sales revenue	1,577,769	1,604,715
Other operating revenue	25,589	20,031
Total operating revenue	**1,603,358**	**1,624,746**
Cost of sales	-1,238,298	-1,244,346
Gross profit	**365,060**	**380,400**

Figures in NOK 1000	**2019**	**2018**
Logistics		
Sales revenue	293,612	272,378
Other operating revenue	34,457	35,361
Total operating revenue	**328,069**	**307,739**
Cost of sales	0	0
Gross profit	**328,069**	**307,739**

Other income and expenses
To improve the information value of the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. Other income and expenses are presented in Note 5.

Below, the income statement is presented up to and including EBIT, with and without adjustment for other income and expenses:

	2019		2018	
Figures in NOK 1000	Adjusted	Non-adjusted	Adjusted	Non-adjusted
Sales revenue	2,710,374	2,710,374	2,672,615	2,672,615
Other operating revenue	52,403	52,403	50,586	50,586
Total operating revenue	**2,762,777**	**2,762,777**	**2,723,201**	**2,723,201**
Net gain on sale of fixed assets	11	11	365	365
Cost of sales	-1,601,113	-1,601,113	-1,577,306	-1,577,306
Salaries and other personnel costs	-439,220	-448,355	-426,644	-441,158
Other operating expenses	-329,443	-340,052	-409,330	-400,112
Share of profit from associated companies and jointly controlled entities	4,059	4,059	2,311	2,311
EBITDA	**397,071**	**377,327**	**312,597**	**307,301**
Depreciation and amortisation	-119,573	-119,573	-50,005	-50,005
Operating profit (EBIT)	**277,498**	**257,754**	**262,592**	**257,296**
Other income and expenses	-19,744	0	-5,296	0
Reported operating profit (EBIT)	**257,754**	**257,754**	**257,296**	**257,296**

EBITDA and adjusted EBITDA
EBITDA is defined as operating profit before depreciation, write-downs and amortisation.
Adjusted EBITDA is defined as operating profit before depreciation, write-downs, amortisation and other income and expenses.
EBITDA margin = EBITDA/Total operating revenue
Adjusted EBITDA margin = adjusted EBITDA/Total operating revenue

Below is a reconciliation of operating profit to adjusted EBITDA:

Figures in NOK 1000	2019	2018
Group		
Operating profit	257,754	257,296
Depreciation, write-downs and amortisation	119,573	50,005
EBITDA	**377,327**	**307,301**
Other income and expenses	19,744	5,296
Adjusted EBITDA	**397,071**	**312,597**

Figures in NOK 1000	2019	2018
Spirits		
Operating profit	121,627	118,061
Depreciation, write-downs and amortisation	25,254	24,744
EBITDA	**146,881**	**142,805**
Other income and expenses	2,004	1,768
Adjusted EBITDA	**148,885**	**144,573**

Figures in NOK 1000	2019	2018
Wine		
Operating profit	158,038	167,083
Depreciation, write-downs and amortisation	3,053	2,586
EBITDA	**161,091**	**169,669**
Other income and expenses	8,827	11,838
Adjusted EBITDA	**169,918**	**181,507**

Figures in NOK 1000	2019	2018
Logistics		
Operating profit	2,170	1,095
Depreciation, write-downs and amortisation	11,455	11,261
EBITDA	**13,625**	**12,356**
Other income and expenses	1,583	381
Adjusted EBITDA	**15,208**	**12,737**

Figures in NOK 1000	2019	2018
Other		
Operating profit	-43,113	-23,764
Depreciation, write-downs and amortisation	5,981	6,235
EBITDA	**-37,132**	**-17,529**
Other income and expenses	7,330	-8,691
Adjusted EBITDA	**-29,802**	**-26,220**

Other definitions of alternative performance measurements, shown in key figures

Equity ratio
Equity ratio = equity/total equity and debt

Net interest-bearing debt
Net interest-bearing debt + debt to financial institutions + lease obligations + book value of capitalised front-end fee + fair value, interest-rate swap - bank deposits and other cash and cash equivalents.

Figures in NOK 1000	2019	2018
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	703,829	874,895
Current interest-bearing debt to credit institutions	0	18,063
Book value of capitalised front-end fee	3,121	4,824
Non-current lease obligations	1,151,016	0
Current lease obligations	154,199	0
Bank deposits and other cash and cash equivalents	-205,029	-282,594
Net interest-bearing debt	**1,807,136**	**615,188**

Organic growth
Organic growth in income is the Group or segment's total operating revenue, adjusted for translation effects and structural changes.

Figures in NOK 1000	2019	2018
Group		
Sales revenue	2,710,374	2,672,615
Other operating revenue	52,403	50,586
Total operating revenue	**2,762,777**	**2,723,201**
Currency effects[1]	0	4,700
Structural changes[2]	-7,070	0
Calculation basis, organic growth	**2,755,707**	**2,727,901**
Growth	1.5%	
Organic growth	1.0%	

1. Currency effects are calculated by translation of income in other currencies than NOK in 2018 at the same average exchange rate as for translation of income in 2019.
2. The structural changes in 2019 mainly consist of adjustment for increased revenue from the acquisition of Wongraven Wines, and a settlement from a previous producer-supplier in Sweden which the Group lost in 2019.

Figures in NOK 1000	2019	2018
Spirits		
Sales revenue	811,555	762,447
Other operating revenue	164,024	157,151
Total operating revenue	**975,579**	**919,598**
Currency effects[1]	0	5,500
Structural changes	0	0
Calculation basis, organic growth	**975,579**	**925,098**
Growth	6.1%	
Organic growth	5.5%	

1. Currency effects are calculated by translation of income in other currencies than NOK in 2018 at the same average exchange rate as for translation of income in 2019.

Figures in NOK 1000	2019	2018
Wine		
Sales revenue	1,577,769	1,604,715
Other operating revenue	25,589	20,031
Total operating revenue	**1,603,358**	**1,624,746**
Currency effects[1]	0	-800
Structural changes[2]	-7,070	0
Calculation basis, organic growth	**1,596,288**	**1,623,946**
Growth	-1.3%	
Organic growth	-1.7%	

1. Currency effects are calculated by translation of income in other currencies than NOK in 2018 at the same average exchange rate as for translation of income in 2019.
2. The structural changes in 2019 mainly consist of adjustment for increased revenue from the acquisition of Wongraven Wines, and a settlement from a previous producer-supplier in Sweden which the Group lost in 2019.

Figures in NOK 1000	2019	2018
Logistics		
Sales revenue	293,612	272,378
Other operating revenue	34,457	35,361
Total operating revenue	**328,069**	**307,739**
Currency effects	0	0
Structural changes	0	0
Calculation basis, organic growth	**328,069**	**307,739**
Growth	6.6%	
Organic growth	6.6%	

PARENT COMPANY ACCOUNTS

Statement of income 01.01. -31.12.

Figures in NOK 1000	Note	2019	2018
OPERATING REVENUE AND EXPENSES			
Payroll costs	1	10,691	12,003
Other operating expenses		11,227	3,998
Total operating expenses		**21,918**	**16,001**
Operating profit		**-21,918**	**-16,001**
FINANCIAL INCOME AND EXPENSES			
Income from investment in subsidiary	8	105,661	106,362
Other interest income		13,539	8,377
Other financial income		3,909	6,699
Other interest costs		-23,009	-13,241
Other financial costs		-9,718	-13,009
Net financial profit/loss		**90,382**	**95,188**
PROFIT BEFORE TAX		**68,464**	**79,187**
Tax	2	16,386	23,738
PROFIT FOR THE YEAR		**52,078**	**55,449**
Transferred from/to other equity		52,078	55,449
Total transfers		**52,078**	**55,449**

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2019	2018
ASSETS			
Fixed assets			
Intangible assets			
Deferred tax assets	2	85,995	102,381
Total intangible assets		**85,995**	**102,381**
Financial assets			
Investment in subsidiary	3	1,438,317	1,438,317
Total financial assets		**1,438,317**	**1,438,317**
Total fixed assets		**1,524,312**	**1,540,698**
Current assets			
Receivables			
Trade receivables from companies in the same Group	8	0	1,114
Group contributions from Group companies	8	113,047	106,362
Current receivables from Group companies	8	3,544	13,558
Other receivables		199	193
Total receivables		**116,790**	**121,227**
Cash and cash equivalents	9	64,182	149,213
Total current assets		**180,972**	**270,440**
TOTAL ASSETS		**1,705,284**	**1,811,138**

Figures in NOK 1,000	Note	2019	2018
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	4, 5	1,360	1,356
Share premium	5	719,280	719,280
Total paid-in equity		**720,640**	**720,636**
Retained earnings			
Other equity	5	-122,384	-58,956
Total retained earnings		**-122,384**	**-58,956**
Total equity		**598,256**	**661,680**
Liabilities			
Provisions			
Pension obligations	6	1,468	1,029
Total provisions		**1,468**	**1,029**
Other non-current liabilities			
Debt to financial institutions	7	-1,495	-2,275
Total other non-current liabilities		**-1,495**	**-2,275**
Current liabilities			
Trade payables		246	121
Trade payables to Group companies	8	148	155
Tax payable	2	0	839
Other current liabilities		2,739	6,204
Other current liabilities payable to Group companies	8	0	686
Allocated dividend	5	112,919	112,919
Intragroup balance in Group cash pool system	8,9	991,003	1,029,780
Total current liabilities		**1,107,055**	**1,150,704**
Total liabilities		**1,107,028**	**1,149,458**
TOTAL EQUITY AND LIABILITIES		**1,705,284**	**1,811,138**

Gjelleråsen, 29 April 2020

Michael Holm Johansen
Chairman of the Board

Carl Erik Hagen

Nils Selte

Ann-Beth
Freuchen

Eilif Due

Leena Maria
Saarinen

Kirsten Ægidius

Ann Therese
Jacobsen

Konstanse M.
Kjøle

Erik Hagen

Kenneth Hamnes
Group CEO

Statement of cash flows 01.01. -31.12.

Figures in NOK 1000	2019	2018
CASH FLOWS FROM OPERATIONS		
Profit before tax	68,464	79,187
Tax payable	-839	-1,146
Pension costs without cash effect	352	362
Costs related to share-based remuneration without cash effect	394	7,603
Financial expenses without cash effect	780	780
Change in trade receivables	1,114	-1,092
Change in trade payables	118	167
Change in other current assets and other liabilities	1,276	-46,612
Net cash flows from operational activities	**71,659**	**39,249**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payouts in share-based incentive programme	-2,125	0
Purchase of own shares	-2,915	-8,303
Redemption of debt to financial institutions	0	-72,700
Change in intragroup balance in Group cash pool system	-38,777	303,886
Payments of dividends/Group contributions	-112,873	-112,919
Net cash flow from financing activities	**-156,690**	**109,964**
Net change in bank deposits, cash and cash equivalents	**-85,031**	**149,213**
Holdings of bank deposits, cash and cash equivalents as at 01.01.	149,213	0
Holdings of bank deposits, cash and cash equivalents as at 31.12.	**64,182**	**149,213**

Accounting policies

GENERAL
The annual accounts have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting policies.

The company was founded on 5 November 2004, and listed on the Oslo Stock Exchange on 1 December 2016.

The purpose of the company is to operate the import, export, production, storage and distribution of alcoholic beverages and other goods, and other activities related to this business, as well as the ownership of participations in other companies that conduct such business.

CONSOLIDATED FINANCIAL STATEMENTS
Arcus ASA owns 100 percent of the shares in Arcus-Gruppen AS and Vectura AS.

GENERAL RULE FOR VALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES
Assets intended for continuing ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables due for payment within one year are classified as current assets. The classification of current and non-current liabilities is based on similar criteria.

Fixed assets are valued at acquisition cost, but written down to fair value if the impairment is not expected to be temporary. Fixed assets with a limited economic life are depreciated according to a reasonable depreciation plan.

Current assets are valued at the lower of cost or fair value. Current and non-current liabilities are capitalised at the nominal amounts received at the time of establishment. Borrowing costs are capitalised together with the loan and amortised over the term of the loan. The first year's instalment is reclassified as a current liability.

Certain items are valued according to different principles, as explained below.

SHARES IN SUBSIDIARIES
Shares in subsidiaries are valued using the cost method. The transaction costs are added to the purchase price of shares in subsidiaries. Shares are written down to fair value if this is lower than the recognised value.

Group contributions are recognised in the same year as they are allocated in the subsidiary. If dividends/other distributions exceed the share of retained profit after the acquisition, the surplus represents repayment of invested capital and the distributions are deducted from the value of the investment in the statement of financial position.

RECEIVABLES
Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Provisions for losses are made on the basis of an individual assessment of each receivable.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents include cash, bank deposits and other means of payment with a due date less than three months from the acquisition date.

BORROWING
Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Transaction costs (front-end fees) are capitalised in the statement of financial position and amortized over the term of the loan.

Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year.

PENSION
Pension costs comprise the change in actuarially calculated pension obligations and costs related to defined contribution pension plans. For actuarially calculated pension obligations the costs comprise the period's pension-accrual based assumptions concerning future salary increases and interest costs for the calculated obligation. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations) are recognised against equity.

TAXES
Tax expenses are matched with profit/loss before tax. Tax costs comprise tax payable (tax on the year's directly taxable income) and changes in net deferred tax. Deferred tax and deferred tax assets are presented net in the statement of financial position.

Tax assets are only capitalised if it can be shown to be probable that they can be utilised via future taxable income.

STATEMENT OF CASH FLOWS
The indirect method is used in the preparation of the statement of cash flows. Cash and cash equivalents in the statement of financial position are defined as holdings of cash and cash equivalents in the statement of cash flows.

All figures in the financial statements are presented in NOK 1,000 unless otherwise indicated.

Notes

NOTE 1 PAYROLL COSTS

	2019	2018
Salaries including holiday pay	8,424	7,229
Social security costs	1,602	1,078
Pension costs including social security costs	544	553
Other personnel costs	121	3,143
Total salaries and other personnel costs	**10,691**	**12,003**
Average number of employees	2	2

	2019		2018	
Benefits to executive personnel	**Group CEO**	**Board of Directors**	**Group CEO**	**Board of Directors**
Salary	3,103	2,747	3,118	2,546
Pension costs	486	0	332	0
Other remuneration	1,954	0	234	0

The company had two employees during the year.

The Group CEO also has an ordinary bonus agreement which, on specific terms, will release payment of up to five monthly salaries. He is also included in a temporary share programme (matching shares) which was established in conjunction with the IPO in 2016, and was concluded in Q1 2019. He also takes part in an option programme whereby he was allocated share options in 2017, 2018 and 2019. Further information about these incentive schemes, including his option holdings at the end of the year, is presented below, and in Note 7 to the consolidated financial statements.

The Group CEO has an ordinary occupational pension plan with Storebrand, which entails 5 percent pension contributions for salaries of 0 to 7.1G and 11 percent for salaries from 7.1 to 12G. He also has a supplementary pension agreement that gives pension earnings of 15 percent of salaries above 12G. These pension earnings are capitalised annually in the company's statement of financial position, where the return is based on the return from the Storebrand Balansert pension fund.

If the CEO gives notice of termination, he is subject to six months' notice. If notice of termination is given by the Group, the Group CEO will be entitled to 12 months' severance pay, and during this period will not be able to take employment in competing companies.

No loans or surety are granted for either the Group CEO or members of the Board of Directors.

The Group Management's holdings of ordinary shares in Arcus ASA are stated in Note 21 for the Group.

Share-based incentive schemes

Matching shares:

In connection with the IPO for the parent company, Arcus ASA, in 2016, some key persons were offered matching shares, whereby they are entitled to receive one matching share for each share acquired under the IPO. These matching shares were redeemed in Q1 2019, to the persons still employed by the Group. This incentive programme meant that he received 42,100 shares in Arcus ASA in February 2019, for a total value of TNOK 1,766 (included in other remuneration in the above table).

In total, this programme entailed costs of TNOK 67 in 2019 (TNOK 1,318 in 2018).

Options:

In 2017, a new option programme for senior executives in the Group was adopted, with annual allocation of new options. Two persons at Arcus ASA are included in this programme, including the general manager.

The options' vesting period will be three years from the allocation data, where the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

Options allocated in 2017 were cancelled in 2019, because the Group's KPIs for the period were not achieved, This programme entailed costs of TNOK 52 in 2019 (TNOK 1,087 in 2018). Below, the number of outstanding options regarding the company's employees at the end of the year is presented:

Number of options	2019	2018
Outstanding options at the beginning of the year	658,759	290,199
Allocated options during the year	512,717	368,560
Terminated options during the year	-290,199	0
Outstanding options at the end of the year*	**881,277**	**658,759**

* Of which 579,375 options outstanding to the general manager.

Auditors' fees	2019	2018
Statutory audit	290	285
Other financial auditing	37	91
Tax advisory services	21	36
Total auditors' fees	**348**	**412**

The amounts are stated in TNOK and exclude VAT.

NOTE 2 TAX

Tax for the year is calculated as follows:	2019	2018
Tax payable	0	839
Change in deferred tax	16,386	22,852
Tax effect related to previous years	0	47
Tax	**16,386**	**23,738**

Reconciliation from nominal to actual tax rates:	2019	2018
Profit before tax	68,464	79,187
Expected income tax at a nominal tax rate of 22 percent (23 percent in 2018)	15,062	18,213
Tax effect of the following items:		
Non-deductible costs	1,344	803
Change due to a change in tax rate	0	4,654
Tax on costs booked directly to equity	-20	21
Insufficient/surplus provision in previous years	0	47
Tax	**16,386**	**23,738**
Effective tax rate	23.9%	30.0%

Specification of temporary differences and deficit carried forward:

	2019		2018	
	Asset	Liability	Asset	Liability
Non-current debt	0	1,495	0	2,275
Pension obligations	1,467	0	1,029	0
Other liabilities	0	3,127	0	932
Deficits and interest rate limitations carried forward	394,040	0	467,548	0
Total	**395,507**	**4,622**	**468,577**	**3,207**
Basis for deferred tax asset/liability	390,885		465,370	
Net deferred tax asset in the statement of financial position*	**85,995**		**102,381**	

At the end of the year, the company had NOK 86.7 million in capitalised deferred tax assets associated with the deficit to be carried forward. Based on the Group's strategic and long-term plans for companies in the tax group, the Board of Directors and executive management expect that the deferred tax assets can be utilised.

At the end of 2019, deferred tax was calculated at 22 percent of net temporary differences, which is unchanged from 2018.

NOTE 3 SUBSIDIARIES

Subsidiaries of Arcus ASA

Company	Acquisition date	Registered office	Voting and ownership	Currency	Nominal share capital
Arcus-Gruppen AS	10.10.2005	Nittedal	100%	NOK	276,000
Vectura AS	30.09.2013	Nittedal	100%	NOK	14,000

Company	Cost price (NOK)	Book value as at 31.12	Equity according to last annual financial statements (NOK)	Profit for the year 2019 (NOK)
Arcus-Gruppen AS	1,886,607	1,362,217	2,022,701	118,659
Vectura AS	76,100	76,100	25,789	2,454
Total subsidiaries	**1,962,707**	**1,438,317**	**2,048,490**	**121,113**

NOTE 4 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
01.12.2018		68,023,255	0.02	1,360
31.12.2019		68,023,255	0.02	1,360

20 largest shareholders as at 31.12.2019:	Number of shares	Ownership and voting rights
Canica AS	30,093,077	44.2%
Geveran Trading Co Ltd	6,750,000	9.9%
Verdipapirfondet Dnb Norge	3,441,226	5.1%
Hoff SA	3,297,000	4.8%
Sundt AS	2,399,460	3.5%
Verdipapirfondet Eika Spar	1,943,660	2.9%
Danske Invest Norske Instit. Ii.	1,823,598	2.7%
Folketrygdfondet	1,800,000	2.6%
Verdipapirfondet Eika Norge	1,568,193	2.3%
Goldman Sachs International	1,092,651	1.6%
Centra Invest AS	988,818	1.5%
Danske Invest Norske Aksjer Inst	789,038	1.2%
Rbc Investor Services Bank S.A.	778,250	1.1%
Mutual Fund Localtapiola Consumer	467,243	0.7%
Wenaas Kapital AS Aksjebeholdning	406,923	0.6%
Verdipapirfondet Eika Balansert	398,307	0.6%
Centra Capital AS	355,000	0.5%
Danske Invest Norge II	327,966	0.5%
Avanza Bank AB	311,156	0.5%
Kbl European Private Bankers S.A.	294,753	0.4%
Other shareholders	8,696,936	12.8%
Total	**68,023,255**	**100.0%**

Dividend

The Board of Directors proposes dividend distribution of NOK 1.66 per share for 2019 (2018: NOK 1.66 per share).

NOTE 5 EQUITY

	Share capital	Share premium	Other equity	Total
Equity as at 01.01	**1,356**	**719,280**	**-58,956**	**661,680**
Profit for the year	0	0	52,078	52,078
Purchase of own shares	4	0	-539	-535
Share-based payment	0	0	-1,961	-1,961
Estimate deviations, pensions	0	0	-87	-87
Allocated dividend	0	0	-112,919	-112,919
Equity as at 31.12	**1,360**	**719,280**	**-122,384**	**598,256**

NOTE 6 PENSION OBLIGATIONS AND COSTS

The company is obliged to have an occupational pension scheme under the Norwegian Act on mandatory occupational pension schemes, and has a pension scheme which fulfils the requirements under this Act.

Defined contribution pension

Arcus-Gruppen's ordinary pension plan for all other employees is a defined contribution pension plan with Storebrand. The contribution rate is 5 percent of salary in the bracket from 0 to 7.1 times the National Insurance basic amount (G), and 11 percent of salary in the bracket from 7.1 to 12 times the National Insurance basic amount (G). In addition, there is a private disability plan with a 66 percent benefit level, without free policy accumulation. The child and dependent supplement to Arcus' group life plan is a replacement for the previous spouse and child pension.

The costs associated with the defined contribution pension plan are related to the current premium invoices from the insurance company with which Arcus-Gruppen has signed a defined contribution pension agreement. The current defined contribution pension plans and disability pensions for employees in the defined contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined contribution plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised obligation related to this was NOK 0.1 million at the end of 2019.

Unfunded pension arrangement

The Group CEO also has an unfunded pension arrangement in which the pension entitlement earned is 15 percent of the salary above 12G. Ongoing provision is made for this obligation in the company's statement of financial position and the annual interest accrual is the same as for the Storebrand Balansert Pension. At the end of 2019, this obligation was recognised at NOK 1.4 million.

General assumptions
The Company applies a discount rate equivalent to the covered bond interest rate to its pension obligations. This is in line with the recommendations of the Norwegian Accounting Standards Board. The pension assumptions made by the company are consistent with the recommendations of the Accounting Standards Board from September 2019.

Figures in NOK 1,000

Pension costs	**2019**	**2018**
Present value of pension earnings for the year	280	277
Interest cost of pension obligations	28	40
Accrued social security contributions	44	45
Net pension costs after social security contributions	**352**	**362**
Defined contribution pension plan		
Recognised contributions excluding social security contributions	192	191
Net pension obligations:		
Estimated accrued obligations, non-funded pension plans	1,468	1,029
Net pension assets/liabilities recognised in the statement of financial position	**1,468**	**1,029**
Changes in obligations:		
Net pension obligations 01.01	1,029	757
Pension costs, continued operations	352	362
Estimate deviations recognised directly in equity (IAS19R)	87	-90
Net pension obligations 31.12.	**1,468**	**1,029**
Financial assumptions:		
Discount rate	1.80%	2.30%
Expected salary adjustment	2.25%	2.50%
Expected pension increase	1.25%	1.50%
Expected adjustment of the National Insurance basic amount (G)	2.00%	2.25%
Expected return on pension assets	1.80%	2.30%
Actuarial and demographic assumptions		
Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

NOTE 7 LOANS, PLEDGES AND GUARANTEES, ETC.

Debt to financial institutions				**2019**	**2018**
Figures in NOK 1,000	**Currency**	**Interest-rate profile**	**Loan amount in foreign currency**	**Loan amount in NOK**	**Loan amount in NOK**
Overdraft facility, SEB	NOK	Variable	0	0	0
Total debt to financial institutions				**0**	**0**
Capitalised loan costs				-1,495	-2,275
Book value as at 31.12				**-1,495**	**-2,275**

Term structure	**Maturity 2020**	**Maturity 2021-2023**	**Maturity after 2023**	**Total**
SEB	0	0	0	0
Total debt to financial institutions	**0**	**0**	**0**	**0**

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries, with the exception of the companies in the wine business in Sweden and Finland. At the end of 2019, this Group cash pool system was managed by Arcus ASA. Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

The capitalised front-end fee with a book value of TNOK 1,495 relates to the front-end fee for the cash pool scheme. The outstanding value is here amortised over the duration of the loan, until the end of 2021.

The Group has a long-term financing agreement with SEB, whereby the loan is formally for TSEK 750 and is booked in one of the subsidiaries in Sweden, VinGruppen Sweden Holding AB. The financing agreement does not include a pledger of security.

The company has no non-current debt with terms exceeding five years.

The agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis.
As at 31.12.2019 the Group was well within the required ratio.

NOTE 8 INTRAGROUP RECEIVABLES AND LIABILITIES

Receivables	2019	2018
Claims on Group contributions from Arcus-Gruppen AS	113,047	106,362
Trade receivables from companies in the same Group	0	1,114
Other current receivables from Group companies	3,544	13,558
Total	**116,591**	**121,034**

Liabilities	2019	2018
Trade payables to Group companies	148	155
Other current liabilities payable to Group companies	0	686
Intragroup balance in Group cash pool system	991,003	1,029,780
Total	**991,151**	**1,030,621**

The company has no consolidated assets or liabilities that will fall due more than five years after the close of the financial year.

NOTE 9 BANK DEPOSITS

The company has no restricted bank deposits, but has a bank guarantee for a tax payment of TNOK 2,500.

The company administrates the Group cash pool scheme for the Group and the scheme includes most of the Group's subsidiaries. The Swedish and Finnish wine business are not part of the scheme.

Net deposits or drawings by the subsidiaries are presented as intragroup balances with Arcus ASA. The joint overdraft limit in the Group cash pool system is TNOK 600,000.

At year-end, the Group had total drawings of TNOK 64,182 from the scheme, which are presented as an overdraft for Arcus ASA, compared with TNOK 149,213 at the end of 2018.

As at 31.12.2019, Arcus ASA has drawings of TNOK 1,029,780 in the Group cash pool system, compared to drawings of TNOK 991,003 at the end of 2018.

NOTE 10 FINANCIAL MARKET RISK

Financial risk
The company has individual financial derivatives for hedging purposes. The company does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes.

The risk management procedures are adopted by the Board of Directors and undertaken by the administration in cooperation with the individual business areas. The most important financial risks to which the company is exposed are associated with interest-rate risk, liquidity risk and foreign currency risk. The company's management continuously assesses how these are to be handled.

Interest-rate risk
The company is exposed to interest-rate risk by placing liquid assets and drawing in the Group cash pool system. As at 31.12.2019, the company had variable interest rates for all of its interest-bearing deposits and liabilities.

Liquidity risk
Liquidity risk is the risk that the company will not be in a position to service its financial liabilities as they fall due. The company must at all times have sufficient liquidity to fulfil its obligations. It is also a goal to minimise the company's excess liquidity. The company will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance.

As far as possible, the company wishes to have flexibility for its liquid assets related to day-to-day operations. This is achieved through a Group cash pool system with a drawing facility that as of 31.12.2019 is managed by Arcus ASA.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used.

Currency risk
Since the company operates international business, there is some exposure to currency risk. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions. The accounting treatment of financial derivatives is described under "Accounting Policies".

The company makes substantial purchases in foreign currency (mainly EUR), while the functional currency is NOK.

Receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate. Currency exposure is hedged mainly by using forward contracts.

During the year, to a certain degree purchase and sale of goods in foreign currency are hedged, and the forward exchange rate achieved in the market is used as the transaction rate. As a general rule, the currency exposure is hedged three times a year, for four-month terms.

As at 31.12.2019, the company had no forward contracts (asset hedging) to hedge items in the statement of financial position and orders already placed.

NOTE 11 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

Since the COVID-19 outbreak, Arcus' business segments have managed to keep operations stable. Supply of wine and other raw materials, has more or less been according to plan due to close cooperation with our partners. At our production and bottling facility, there have been no major disruptions. Sales of wine and spirits to Vinmonopolet has been higher than normal. The main reasons are strongly reduced sales to Duty Free Travel Retail, hotels, restaurants and cafés, and strongly reduced shopping at the Swedish border. Logistics has had high activity due to increased demand at Vinmonopolet, and operation and deliveries have been very close to plan.

No employees have so far reported COVID-19 infection. By mid-April 3,7 percent of the employees were temporarily laid off. All temporary layoffs in Arcus are related to reduced sales to hotels, restaurants and bars. To minimize temporary layoffs, some of these employees have worked in our production, to fill vacant positions.

The Group's overdraft facility at SEB has been increased from 600 MNOK to 800 MNOK to provide additional liquidity reserves during the potentially volatile situation caused by the COVID-19 outbreak. The due date on the group's term loan has also been extended by one year to 1 December 2022.

Given the challenging situation faced by some of our customers we are closely monitoring the situation and taking appropriate actions to mitigate the risk of credit losses. We currently estimate that the effect will be relatively moderate and have made appropriate extraordinary provisions for expected losses in our Q1 accounts.

On 11 March, Arcus announced that Vectura and Cuveco were assessing the possibility of a merger. In an industry subject to strong competition and low margins, the two parties would like to establish a company that, over time, can develop even better services. A merger would make it possible to achieve a size that makes it easier to invest for the future in automation, digitalisation and sustainable solutions. The new company would gradually be able to offer a better and broader range of services to its many customers. The Norwegian Competition Authority (Konkurransetilsynet) has approved the possible merger between Vectura and Cuveco. The merger project will then move on to the next stage of negotiations and planning.

DECLARATION

The Board of Directors and the General Manager confirm that, to the best of their knowledge, the annual financial statements have been prepared in accordance with current accounting standards and that the information presented in the financial statements provides a true and fair view of the assets, debt, financial position and overall results of the Group. The Board of Directors and the General Manager also confirm that, to the best of their knowledge, the Annual Report presents a true and fair view of the development, results and position of the company and the Group, and a good description of the most central risk and uncertainty factors faced by the company.

Gjelleråsen, 29 April 2020

Michael Holm Johansen Chairman of the Board	Carl Erik Hagen	Nils Selte	Ann-Beth Freuchen	Eilif Due
Leena Maria Saarinen	Kirsten Ægidius	Ann Therese Jacobsen	Konstanse M. Kjøle	Erik Hagen
Kenneth Hamnes Group CEO				

AUDITOR'S REPORT

Statsautoriserte revisorer
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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Arcus ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arcus ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2019, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the balance sheet as at 31 December 2019, statement of income, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment assessments – goodwill and trademarks

As at 31 December 2019, the Arcus Group had trademarks and goodwill recognized in the balance sheet, representing 34 % of the total capital, mainly related to the spirit segment. Uncertainty related to earnings and profitability increases the risk of loss due to impairment. Due to the extent of judgmental assessments applied in management's models for impairment considerations, together with the significant value in the balance sheet, the impairment assessments of trademarks and goodwill are considered a key audit matter.

Our audit of the Group's impairment assessments has included a review and testing of the impairment models, assessment of cash-generating units, control of mathematical accuracy of models together with testing and evaluating the assumptions management used as a basis in the calculations. We also reviewed the design of management's internal controls related to the impairment assessments. In addition, we considered management's assumption on future cash-flow forecasts by looking at the historical accuracy in management's budgets and prognoses against the Company's actual results. We compared key assumptions against market information where available. We also assessed discount rates by comparing the assumptions for the calculation with external data like expected inflation, debt ratio, loan interest, risk premium and beta values for comparable companies. In addition, we have reviewed and carried out sensitivity analyses in order to evaluate how sensitive the model is for changes in the most important underlying assumptions.

We refer to note 12 in the financial statements and to information about intangible assets and significant accounting estimates and judgemental considerations in the Group's accounting principles.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 30 April 2020
ERNST & YOUNG AS

Kjetil Rimstad
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Quarterly Report

Q2 2020

Skagerrak Nordic Dry Gin received Double Gold at the international competition The Gin Masters in London in July. At the 2020 International Wine & Spirit Competition (IWSC), Skagerrak Nordic Dry Gin won gold and received 95 points out of a maximum of 100.

Contents

Message from the CEO

During the COVID-19 pandemic the Nordic governments' extensive travel restrictions, and restrictions on bars and restaurants, have produced very high volumes at the monopolies and increased activity for Arcus.

Partly as a result of the above, this quarterly result is the best Q2 result in Arcus' history, both in terms of revenue and EBITDA.

The strong results would not have been possible without good cooperation and support from our suppliers and partners. Due to COVID-19, securing supplies of wine and raw materials has been challenging, but occasional late deliveries have had limited effect.

Arcus has a strong and flexible organization, a prerequisite for being able to meet such extraordinarily high demand. We have adapted and solved the challenges we have faced. I would like to thank my colleagues for their important contribution in a very challenging time. Without their hard work and positive attitude, Arcus could not have delivered such strong financial results.

Wine
In Q2, the growth was especially strong in Norway, with revenue increasing 53.3 percent compared to the same quarter last year. For Wine Norway, this quarter is the 11th quarter in a row with increased market share. In Sweden, revenues from existing business continued to grow, but sales were lower compared to Q2 last year due to the loss of producers in March 2019. Stronger SEK and EUR strengthened the overall reported growth, in addition to the acquisition of Wongraven Wines in December 2019. The strong increase in revenues combined with flat indirect costs is the main reason for the increased EBITDA-margin. A favourable product mix with more Bag-in-Box sales combined with price increases at the monopolies, led to increased gross margin in the period despite the negative effect of the strong EUR and USD on purchasing costs.

Spirits
During Q2, revenue increased in all monopoly markets as sales shifted from border channels to domestic retail. In Norway, Sweden and Finland revenue increased in the double digits during Q2 compared to last year. Despite the strong growth in monopoly markets, the organic growth on external sales was negative by 8.5 percent, mainly due to lower travel and border sales following COVID-19. EBITDA-margin increased compared to Q2 last year due to lower operational costs combined with higher gross profit from internal wine bottling.

Logistics
Logistics' revenues increased by 10.8 percent in the quarter, driven by higher sales to Vinmonopolet. EBITDA increased due to increased revenues, significantly more efficient handling in the warehouse and more cost-effective distribution.

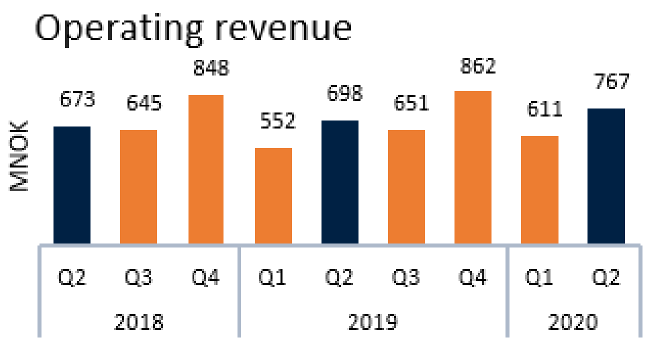
Kenneth Hamnes
Group CEO, Arcus ASA

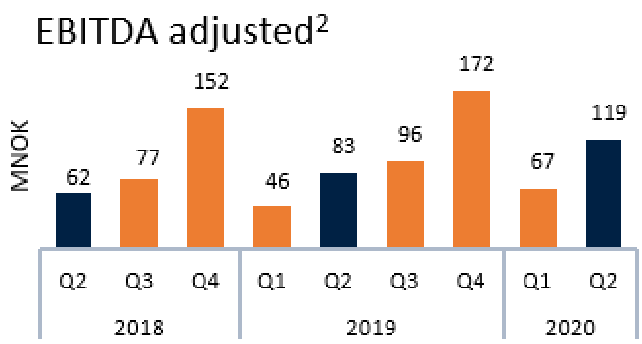
Key figures Q2 2020

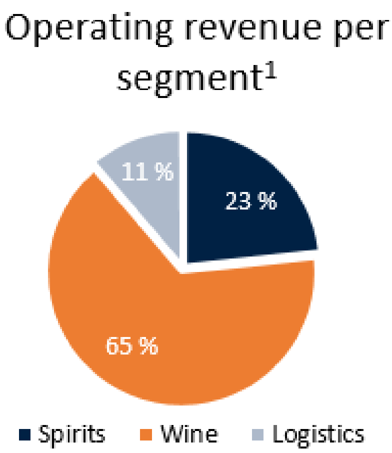
CONSOLIDATED GROUP FIGURES

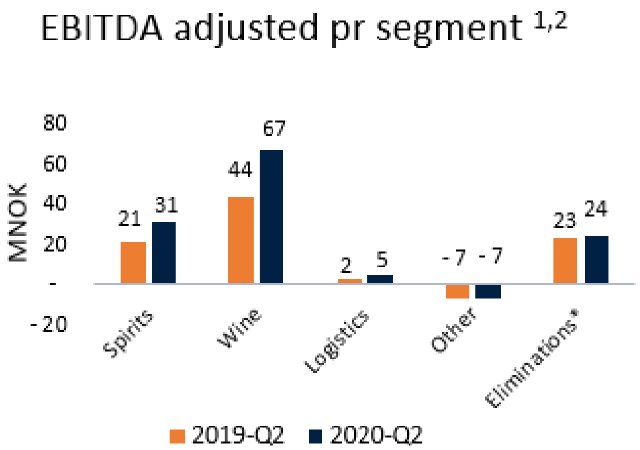
MNOK	Second quarter		Year to date		Full Year
	2020	2019	2020	2019	2019
Total operating revenue	767.2	698.0	1 378.3	1 250.1	2 762.8
Gross profit[1)]	316.8	280.6	578.3	518.2	1 161.7
EBITDA[1) 2)]	101.0	71.1	167.7	115.7	377.3
EBITDA adjusted[1) 2)]	119.3	82.6	185.9	128.7	397.1
Pre-tax profit[2)]	53.7	21.7	108.0	10.7	172.5
Earnings per share, parentcompany shareholders (NOK)	0.52	0.25	1.19	0.11	1.94
Key figures					
Gross margin[1)]	41.3 %	40.2 %	42.0 %	41.5 %	42.0 %
EBITDA margin[1)]	13.2 %	10.2 %	12.2 %	9.3 %	13.7 %
EBITDA margin adjusted[1)]	15.5 %	11.8 %	13.5 %	10.3 %	14.4 %
Equity ratio[1)]	29.0 %	30.5 %	29.0 %	30.5 %	29.7 %
Financial position					
Total equity	1 741.4	1 521.3	1 741.4	1 521.3	1 662.2
Net interest bearing debt (cash)[1)]	1 380.6	1 835.5	1 380.6	1 835.5	1 807.1

[1)] Alternative Performance Measure (APM) – see separate chapter for definition and reconciliation.









Highlights Q2 2020

OVERALL PERFORMANCE

- **Operating revenue** for Q2 2020 was 767.2 MNOK, compared to 698.0 MNOK in Q2 last year (+9.9 percent). Operating revenue increased for all business areas. Organic growth for Q2 was +1.2 percent, with an estimated positive currency effect of approximately 53.4 MNOK due to significantly stronger SEK, EUR and DKK vs NOK this year.

- **Adjusted EBITDA** for Q2 was 119.3 MNOK compared to 82.6 MNOK in Q2 last year (+44.4 percent). Adjusted EBITDA improved in all business areas.

BUSINESS SEGMENTS

- **Wine** revenues amounted to 497.4 MNOK, compared to 430.6 MNOK in Q2 last year (+15.5 percent). Organic growth was +4.4 percent. Adjusted EBITDA margin was 13.4 percent for Q2 2020, compared to 10.1 percent in Q2 last year.

- **Spirits** revenues amounted to 237.3 MNOK, compared to 214.4 MNOK in Q2 last year (+10.7 percent). Organic growth was -8.5 percent[1]. Adjusted EBITDA margin was 12.9 percent for Q2, compared to 9.9 percent in Q2 last year.

- **Logistics** revenues amounted to 90.5 MNOK compared to 81.7 MNOK in Q2 last year (+10.8 percent). Adjusted EBITDA margin was 5.4 percent for Q2, compared to 2.5 percent in Q2 last year.

[1]Calculated on external spirits sales

Wine: Significant growth and flat indirect costs

MNOK	Second quarter		Year to date		Full Year
	2020	2019	2020	2019	2019
Total operating revenue	**497.4**	**430.6**	**874.8**	**771.7**	**1 603.4**
Gross profit[1)]	117.8	97.1	206.5	175.7	365.1
Gross margin [1)]	*23.7 %*	*22.6 %*	*23.6 %*	*22.8 %*	*22.8 %*
EBITDA[1)]	62.6	36.8	98.9	63.6	161.1
EBITDA adjusted[1)]	66.6	43.5	103.3	70.7	169.9
EBITDA margin[1)]	*12.6 %*	*8.5 %*	*11.3 %*	*8.2 %*	*10.0 %*
EBITDA margin adjusted[1)]	*13.4 %*	*10.1 %*	*11.8 %*	*9.2 %*	*10.6 %*

1) Alternative Performance Measure (APM) – see separate chapter for definition and reconciliation.

OPERATING REVENUE

Total operating revenue for Wine was 497.4 MNOK for the second quarter, compared to 430.6 MNOK in Q2 last year. Organic growth was 4.4 percent, while reported growth was 15.5 percent. Reported growth includes 39.7 MNOK in exchange rate effects from the stronger SEK and EUR, as well as 6.6 MNOK from the acquisition of Wongraven Wines in December 2019.

In Norway and Finland, the restrictions on travel and HORECA related to the COVID-19 led to significant growth at the monopolies in the quarter. This effect was less significant in Sweden where measures were less strict.

In Sweden, Arcus' sales at Systembolaget were down in a growing market. Excluding the lost producers in the subsidiary Vinunic, Arcus' sales grew in line with the market, fuelled by growth of popular Bag-in-Box products.

In Norway, Arcus' sales grew more than the extremely fast-growing market, again leading to increased market share during the period. Both own brands and the agency business outperformed the market in the quarter, fuelled by Arcus' strong position within the Bag-in-Box format with high demand during the COVID-19.

In Finland, Arcus' sales to Alko increased in line with the market in the period. Well-known brands and Arcus' own brands responded well to the increased demand at Alko.

EBITDA

The adjusted EBITDA-margin for Wine was 13.4 percent in the second quarter, up from 10.1 percent same period last year.

The strong increase in revenues combined with flat indirect costs is the main reason for the increased EBITDA-margin. A favourable product mix with more Bag-in-Box sales and price increases to the monopolies led to increased gross margin in the period despite negative currency effects.

WINE

Arcus is the largest importer of wine in Norway, the second largest in Sweden, and the fifth largest in Finland. Arcus imports and markets agency wines, as well as Arcus brands.

Spirits: Strong EBITDA growth

MNOK	Second quarter		Year to date		Full Year
	2020	2019	**2020**	2019	2019
Sales	175.6	179.2	329.1	317.7	811.6
Other revenue	61.7	35.2	108.0	72.0	164.0
Total operating revenue	**237.3**	**214.4**	**437.0**	**389.7**	**975.6**
Gross profit[1)]	112.8	105.6	212.4	199.1	484.3
Gross margin [1)]	*47.5 %*	*49.2 %*	*48.6 %*	*51.1 %*	*49.6 %*
EBITDA[1)]	29.1	20.3	47.6	30.1	146.9
EBITDA adjusted[1)]	30.5	21.1	49.3	31.1	148.9
EBITDA margin[1)]	*12.3 %*	*9.5 %*	*10.9 %*	*7.7 %*	*15.1 %*
EBITDA margin adjusted[1)]	*12.9 %*	*9.9 %*	*11.3 %*	*8.0 %*	*15.3 %*

[1)] Alternative Performance Measure (APM) – see separate chapter for definition and reconciliation.

OPERATING REVENUE

Total operating revenue for Spirits in the second quarter of 2020 was 237.3 MNOK, compared to 214.4 MNOK for the same period last year, an increase of 10.7 percent. The increase was driven by internal wine bottling. Organic growth was negative 8.5 percent[1] mainly due to extremely low DFTR and border sales following COVID-19.

Revenue continued to increase in the monopoly markets in Q2, as sales shifted from travel and border channels to domestic retail. In Norway, Sweden and Finland revenue increased in the double digits during Q2 compared to last year. Market share in Norway was down, as the market grew even faster than Arcus with sales of global brands shifting from DFTR to Vinmonopolet. Arcus market shares in Sweden and Finland were stable.

In Denmark, revenue decreased in the quarter as Danish border trade was only opened towards the end of the period. Overall domestic market share increased driven by growth in vodka and premixed cocktails. Shares in the aquavit category were slightly down as private label brands benefited from growth in the value segment due to closed borders.

Sales in the DFTR channel were very limited during Q2. Germany and other markets saw an increase in revenue, but depletion was challenged by reduced retail activation during COVID-19.

EBITDA

The adjusted EBITDA margin for Spirits was 12.9 percent for Q2 2020, compared to 9.9 percent Q2 2019.

Lower operational costs combined with higher gross profit from internal bottling strengthened EBITDA.

The lower operational costs during the period stem largely from cancelled, reduced or postponement of activities due to COVID-19, as well as reduced travel. Higher internal wine-bottling volumes contributed positively on gross profit but reduced the gross margin.

There was a negative contribution from associated company Tiffon (Braastad cognac).

SPIRITS

Arcus is a global leader in aquavit with brands such as Gammel Opland, Linie, Løiten and Aalborg. Other important categories are bitter (Gammel Dansk), vodka (Vikingfjord, Kalinka, Amundsen and Dworek) and cognac (Braastad). Key markets are Norway, Denmark, Sweden, Finland, Germany and Duty Free Travel Retail (DFTR). Arcus brands are produced and bottled at Gjelleråsen, outside Oslo.

[1] Calculated on external spirits sales

Logistics: Strong revenue and EBITDA growth

MNOK	Second quarter		Year to date		Full Year
	2020	2019	2020	2019	2019
Total operating revenue	**90.5**	**81.7**	**168.1**	**150.2**	**328.1**
Gross profit[1)]	90.5	81.7	168.1	150.2	328.1
Gross margin [1)]	*100.0 %*	*100.0 %*	*100.0 %*	*100.0 %*	*100.0 %*
EBITDA[1)]	4.9	0.8	3.2	-1.4	13.8
EBITDA adjusted[1)]	4.9	2.1	3.2	-0.2	15.4
EBITDA margin[1)]	*5.4 %*	*0.9 %*	*1.9 %*	*-0.9 %*	*4.2 %*
EBITDA margin adjusted[1)]	*5.4 %*	*2.5 %*	*1.9 %*	*-0.1 %*	*4.7 %*

1) Alternative Performance Measure (APM) – see separate chapter for definition and reconciliation.

VOLUME

Distributed volume in the second quarter was 17.1 million liters, an increase of 4.0 million liters from the same quarter last year. The volume growth was driven by significantly higher sales to Vinmonopolet, as HORECA was significantly reduced due to COVID-19 measures. Volumes to Vinmonopolet increased by 47.1 percent, while Vinmonopolet's total sales increased by 45.2 percent compared to the same quarter last year.

By the end of the first quarter, Vectura's share of deliveries to Vinmonopolet was 50.2 percent, compared to 49.6 percent by the end of same quarter last year.

Distributed volume in the HORECA-channel declined by 62.8 percent compared to last year, as most bars and restaurants were closed during the first part of the quarter. By the end of the quarter, volumes in the HORECA-channel were almost back to normal levels.

Sales to other wholesalers decreased by 30.9 percent compared to the second quarter last year.

Due to the extraordinarily high volumes delivered to Vinmonopolet, there were some issues regarding consumers' orders via the order assortment.

OPERATING REVENUE

Operating revenue increased by 10.8 percent to 90.5 MNOK in the quarter, compared to 81.7 MNOK in the same period last year. The increase was driven by higher volumes at Vinmonopolet. Revenue per liter was down as prices at Vinmonopolet are lower than in other channels due to the lower complexity and higher dropsizes for Vinmonopol-deliveries.

EBITDA

Adjusted EBITDA in the second quarter was 4.9 MNOK, an improvement of 2.8 MNOK compared to the same quarter last year.

The high volumes to Vinmonopolet increased dropsize and reduced distribution costs per liter.

This more than compensated for the decline in revenue per liter and additional costs incurred to handle all the orders and limit delays in deliveries (e.g. use of overtime, nightshifts and weekends in the warehouse; additional external storage of goods).

LOGISTICS

Vectura is the leading integrated logistics service provider for alcoholic-beverage importers in Norway. Vectura serves both Arcus-Gruppen AS and external customers. Vectura is located next to Arcus' production facility at Gjelleråsen, outside Oslo

Financial position

CASH FLOW AND FINANCIAL POSITION

Reported net cash flow from operations before tax in Q2 2020 was 528.4 MNOK, compared to 13.2 MNOK in Q2 2019 (change of +515.2 MNOK).

The Q2 cash flow was higher this year mainly due to a significant reduction in net working capital during the period this year compared to an increase last year, and higher EBITDA this year.

The net working capital decreased in the quarter this year with increased accounts payables, alcohol tax and VAT fueled by the significant sales growth, but without the corresponding higher receivables.

The receivables declined in the period this year despite higher sales, mainly because Vinmonopolet temporarily (until 30 June) reduced their own credit terms due to COVID-19.

In addition, cash flow from change in net working capital had negative cut-off effects last year when payments arrived first banking day in July.

Net interest bearing debt was 1,380.6 MNOK compared to 1,835.5 MNOK at the end of Q2 2019. Excluding IFRS16 effects, it was 258.6 MNOK vs 930.8 MNOK last year. The higher cash flow in the period, and postponed payment of dividend from (May last year, July this year), increased the cash position more than the stronger SEK vs NOK increased the long-term loan in SEK, reducing net debt compared to last year.

Other information

STRONG SALES OF NEW CATEGORIES IN DENMARK

Pre-mixed cocktails, introduced in Denmark in the autumn of 2019, have become very popular during spring and summer. Pre-mixed classic cocktails are new products for Arcus in the Danish market, 1.5-liter bag-in-boxes, bottled at Arcus' production facility at Gjelleråsen.

The Skagerrak Nordic Dry Gin, launched in Denmark late 2019, has during the summer become the #2 best-selling premium gin.

AWARDS FOR SKAGERRAK NORDIC DRY GIN

Skagerrak Nordic Dry Gin received Double Gold at the international competition The Gin Masters in London in July, where an international jury blind tasted 219 gins. Skagerrak Nordic Dry Gin achieved gold in the categories Contemporary and Premium.

At the International Wine & Spirit Competition in London in July, Skagerrak Nordic Dry Gin received 95 points out of 100 (i.e. "An excellent spirit with an exceptional balance and rare and complex flavours. An example that stands out against its peers").

WONGRAVEN EXPANSION

Since entering a long-term relationship with Sigurd Wongraven December 2019, some of his wines have already been introduced in Sweden. In addition, Wongraven has also launched beer for sale at Vinmonopolet (Saison Wongraven). The beer is blended by Kjetil Jikiun, founder of Nøgne Ø, and Sigurd Wongraven.

BREACH OF COMPETITION CLAUSE

At the Stockholm Chamber of Commerce, an arbitration tribunal has ruled that former employee Stefan Stjärnström breached the competition clause in his employment contract with Vinunic. Stjärnström will have to repay his severance pay, in addition to Vinunic's legal fees and own costs.

In February 2019, Stefan Stjärnström recruited five key employees from Vinunic AB and Vingruppen i Norden AB to his new company. Days after, several wine producers ended their cooperation with Vinunic to join his company too. Stjärnström's competition clause expired 31 December 2018. The arbitration tribunal evidenced the fact that Stjärnström already before 31 December 2018 started his competing company and therefore was in breach with the parties' agreement. Vinunic and Vingruppen are pleased with the ruling and deem that it is fair. The ruling cannot be appealed and is final.

SEVERAL AQUAVIT LAUNCHES IN NORWAY

To strengthen Arcus' position in the Norwegian aquavit market, several new aquavits will be launched at Vinmonopolet in September. Among the new launches are Markens Grøde (tender win), Edvard Munch Aquavit and Gammel Opland Juleaquavit.

Environmental, Social and Governance (ESG)

LIFE CYCLE ANALYSIS OF THREE PRODUCTS

On behalf of Arcus, Research Institute of Sweden (RISE), has performed a life cycle analysis of LINIE Aquavit 0.7L bottle, Aalborg Taffel 0.7L bottle and Falling Feather 3L BIB. In the comprehensive study RISE has calculated CO_2 emissions, use of freshwater and spill in the ocean throughout each product's lifecycle. Arcus will publish the results this autumn.

WINE SWEDEN REACHED THE 2019 CLIMATE GOAL

Wine Sweden (Vingruppen Norden) has reached its climate goal for 2019. This is a result of more effective transportation of products, and improved recycling at the office. Wine Sweden is now at 0.35 kg CO_2e/liter of beverage, a reduction of 8 percent from previous year, which is in line with the reduction ratio required to become a climate-neutral operation in 2030, according to the Swedish Climate Initiative for the Beverage Industry.

BIOLOGICAL WASTE CONVERTED TO BIOGAS

Since April, Arcus has delivered biological waste from the destillation and maceration process to Norsk Matretur where the waste is converted into biogas. Biogas can be used as fuel for cars, buses and trucks. Arcus expects to deliver 75 tons of waste per year.

Half-year review

This half-year review presents highlights only. Additional details are available in the Group's interim report for Q1 and the review of Q2 results in this report. This interim report does not include all information that is normally prepared in a full annual financial statement and should be read in conjunction with the Group's annual financial statement as at 31.12.2019.

FINANCIAL RESULTS

The COVID-19 outbreak and the effects therefrom have significantly impacted our business in 2020, particularly in Norway. Operating revenue for the first half year was 1 378.3 MNOK vs. 1 250.1 MNOK (+10.3 percent) in the same period last year. Organic growth was 3.9 percent in the period with the Wine and Distribution business seeing solid growth. The external sales in the Spirits segment slightly declined in the first half year, but a significant increase in internal bottling services lifted total revenues above same period last year. Reported operating revenue was boosted by the weakness of the NOK vs. the SEK and the EUR.

Adjusted EBITDA for the first half year was 185.9 MNOK. This represents a 44.5 percent increase compared to 128.7 MNOK for the same period last year. All business areas contributed positively compared to last year and the increase is mainly explained by significant sales growth in the monopoly channels due to COVID-19 restrictions, combined with indirect costs at same level as last year.

CASH FLOW AND FINANCIAL POSITION

Reported net cash flow from operations before tax YTD was 541.2 MNOK vs. -111.9 last year. Higher profits this year contributed positively, although the main reason for the higher cash flow is the reduction in net working capital this first half year compared to an increase last year. The significant increase in sales during COVID-19 increased alcohol tax, VAT and accounts payable, but without a corresponding increase in accounts receivables because Vinmonopolet temporarily (until 30 June) reduced their own credit terms due to COVID-19. In addition, cash flow from change in net working capital had negative cut-off effects last year when payments arrived on the first banking day in July.

OUTLOOK

Arcus ASA operates in non-cyclical wine and spirits markets with moderate and steady growth, but with some variations between the different categories, countries and seasons. Tender wins, new products, operational efficiency improvements in Arcus' three business segments and minor bolt-on acquisitions will contribute to profitable growth going forward. Over the next years, Arcus is still committed to meet the financial targets outlined at the IPO. In the short term, the COVID-19 outbreak will continue to influence our business in ways that are currently difficult to predict. While we currently still experience positive effects, it is impossible to forecast how long they will continue. We are closely monitoring events in order to minimize potential disruption to our operations and so that we can continue meeting our customers' and consumers' expectations.

The Group's overdraft facility at SEB has been increased from 600 MNOK to 800 MNOK to provide additional liquidity reserves during the potentially volatile situation caused by the COVID-19. The due date on the group's term loan has also been extended by one year to 24 October 2022.

COVID-19 is identified as an impairment indicator for certain cash generating units (CGUs) in Spirits, and management has estimated the recoverable amount and compared this to the carrying amount for the relevant CGUs. Based on the impairment tests performed, no impairment is identified in the first half of 2020. Depending on the duration of the COVID-19, and to what extent the business is affected in the medium to long term perspective, it may have an impact on assumptions applied for calculating the recoverable amount for fixed and intangible assets, including goodwill.

LONG-TERM FINANCIAL TARGETS

As communicated in connection with the IPO, Arcus targets organic revenue growth in the level of 3-5 percent p.a. (including minor bolt-on acquisitions), as well as EBITDA growth of 6-9 percent p.a. over the next three to five years.

SEASONAL VARIATIONS

The business of Arcus is seasonal. Sales of wine and spirits increase during national festivals and holidays, in particular Easter and Christmas. Q4 is normally the strongest quarter in terms of income as well as operating profit due to Christmas and New Year's Eve.

DECLARATION BY THE BOARD OF DIRECTORS

The Board of Directors and Chief Executive Officer confirm, to the best of our knowledge, that the unaudited, condensed financial statements for the period 1 January to 30 June 2020 including notes, have been prepared in accordance with IAS 34 – Interim Financial Reporting, as determined by the EU and Norwegian Additional Requirements in the Securities Trading Act. It is also stated that the information in the condensed financial statement, provides a fair view of the business, and the Group's assets, liabilities, financial position and overall results.

Nittedal, 17 August 2020
The Board of Directors of Arcus ASA

Michael Holm Johansen
Chaiman of the Board

Carl Erik Hagen

Kirsten Ægidius

Leena Maria Saarinen

Ann-Beth Freuchen

Nils Selte

Ingeborg Flønes

Erik Hagen

Therese Jacobsen

Anne-Marie Flåten

Kenneth Hamnes
Group CEO

Group consolidated accounts

The interim financial statement has not been audited.

CONDENSED STATEMENT OF INCOME

MNOK		Second quarter		Year to date		Full Year
	Note	2020	2019	2020	2019	2019
Sales	2,9	759.0	685.5	1 354.1	1 227.5	2 710.4
Other revenue	2	8.1	12.4	24.2	22.6	52.4
Total operating revenue	2,9	**767.2**	**698.0**	**1 378.3**	**1 250.1**	**2 762.8**
Cost of goods		-450.4	-417.4	-800.0	-731.9	-1 601.1
Gross Profit		**316.8**	**280.6**	**578.3**	**518.2**	**1 161.7**
Gain on sale of fixed assets		0.0	0.0	0.1	0.0	0.0
Salaries and personnel cost		-122.5	-112.6	-241.0	-221.3	-439.2
Advertising & Promotion expenses (A&P)		-23.3	-32.3	-43.6	-56.2	-116.0
Other operating expenses		-48.5	-55.5	-105.8	-112.4	-213.5
Share of profit from AC[1)] and JCE[2)]		-3.4	2.3	-2.1	0.4	4.1
Other income and expenses	3	-18.3	-11.5	-18.2	-13.0	-19.7
EBITDA		**101.0**	**71.1**	**167.7**	**115.7**	**377.3**
Depreciation	5,6	-28.8	-24.6	-57.5	-49.4	-111.8
Amortisations	5,6	-2.7	-1.9	-5.4	-3.8	-7.7
Operating profit (EBIT)		**69.5**	**44.7**	**104.9**	**62.4**	**257.8**
Financial income	12	9.7	7.1	53.2	11.8	25.9
Financial expenses	7,10,12	-25.6	-30.0	-50.1	-63.5	-111.2
Pre-tax profit		**53.7**	**21.7**	**108.0**	**10.7**	**172.5**
Tax		-17.2	-4.7	-25.8	-2.8	-39.2
Profit/loss for the year		**36.5**	**16.9**	**82.1**	**7.9**	**133.3**
Profit/loss for the year attributable to parent company shareholders		35.6	16.9	81.0	7.8	132.3
Profit/loss for the year attributable to non-controlling interests		0.8	0.1	1.1	0.1	1.0
Earnings per share, continued operations		0.52	0.25	1.19	0.11	1.94
Diluted earnings per share, continued operations		0.49	0.24	1.12	0.11	1.85

[1)]Associated Companies, [2)]Jointly Controlled Entities

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME

MNOK		Second quarter		Year to date		Full Year
	Note	2020	2019	2020	2019	2019
Profit/loss for the year		**36.5**	**16.9**	**82.1**	**7.9**	**133.3**
Items that will not be reclassified against the statement of income						
Change in actuarial gains and losses pensions		0.0	0.0	0.0	0.0	-2.0
Tax on change in actuarial gains and losses pensions		0.0	0.0	0.0	0.0	0.4
Total		**0.0**	**0.0**	**0.0**	**0.0**	**-1.6**
Items that may be reclassified against the statement of income						
Translating differences in translation of foreign subsidiaries		-51.6	0.1	110.8	-23.5	-5.0
Tax on translating differences in translation of foreign subsidiaries		0.0	0.0	0.0	0.0	0.0
Total		**-51.6**	**0.1**	**110.8**	**-23.5**	**-5.0**
Total other comprehensive income		**-51.6**	**0.1**	**110.8**	**-23.5**	**-6.6**
Total comprehensive income for the year		**-15.1**	**17.0**	**193.0**	**-15.5**	**126.7**
Total comprehensive income for the year attributable to parent company shareholders		-15.9	17.1	191.5	-15.4	126.1
Total comprehensive income for the year attributable to non-controlling interests		0.7	-0.1	1.4	-0.1	0.7

CONDENSED STATEMENT OF FINANCIAL POSITION

MNOK		Second quarter		Full Year
	Note	**30.06.2020**	**30.06.2019**	**31.12.2019**
Intangible assets	6	2 023.6	1 848.5	1 923.2
Tangible assets	5	1 402.1	1 195.6	1 431.2
Deferred tax asset		72.1	117.7	86.1
Financial assets		69.0	60.4	65.3
Total fixed assets		**3 566.8**	**3 222.2**	**3 505.8**
Inventories		583.0	496.1	486.6
Accounts receivables and other receivables		1 186.4	1 174.3	1 392.5
Cash and cash equivalents		675.1	98.5	205.0
Total current assets		**2 444.5**	**1 768.9**	**2 084.1**
Total assets		**6 011.3**	**4 991.1**	**5 589.9**
Paid-in equity		772.1	772.1	772.1
Retained earnings		964.7	746.2	886.2
Non-controlling interests		4.6	3.0	3.9
Total equity		**1 741.4**	**1 521.3**	**1 662.2**
Non-current liabilities to financial institutions	8	775.5	684.5	703.8
Non-current liabilities at fair value through profit or loss	7,10	59.8	68.0	69.3
Non-current lease liabilities	8	1 203.4	1 016.5	1 151.0
Pension obligations		18.8	21.3	23.7
Deferred tax liability		117.2	99.7	101.3
Other non-current liabilities		0.9	0.4	0.5
Total non-current liabilities		**2 175.7**	**1 890.3**	**2 049.6**
Bank Overdraft	8	0.0	180.4	0.0
Current liabilities at fair value through profit or loss	7,10	0.0	0.0	0.0
Current finance lease liabilities	8	71.9	48.8	154.2
Tax payable		6.6	0.0	5.0
Dividend payable		112.9	0.0	0.0
Accounts payable and other payables		1 902.8	1 350.3	1 718.8
Total current liabilities		**2 094.2**	**1 579.5**	**1 878.0**
Total equity and liabilities		**6 011.3**	**4 991.1**	**5 589.9**

CONDENSED STATEMENT OF CHANGES IN EQUITY

MNOK		30.06.2020			30.06.2019		
Statement of changes in equity	**Note**	**Attributed to equity holders of the parent company**	**Non-controlling interest**	**Total equity**	**Attributed to equity holders of the parent company**	**Non-controlling interest**	**Total equity**
Equity 1 January		**1 658.3**	**3.9**	**1 662.2**	**1 651.1**	**3.0**	**1 654.0**
Total comprehensive income for the period		191.5	1.4	**193.0**	-15.4	-0.1	**-15.5**
Dividends		-113.8	0.0	**-113.8**	-115.9	0.0	**-115.9**
Re-purchase of own shares		0.0	0.0	**0.0**	-1.3	0.0	**-1.3**
Sharebased payments	10,11	2.5	0.0	**2.5**	-0.1	0.0	**-0.1**
Change in non-controlling interest		-1.7	-0.7	**-2.4**	0.0	0.1	**0.1**
Equity at the end of period		**1 736.8**	**4.6**	**1 741.4**	**1 518.4**	**3.0**	**1 521.3**

In several of the Group's wine companies, there are managing directors with non-controlling interests. Most of these managing directors have put options associated with their ownership, which they can exercise at a certain point of time in the future.

Although the Group does not have control of the shares at the end of the reporting period, the Group also does not control the possible exercise of the put-option. Because of this, these non-controlling interests where the managing director have put-options related to their shares, are recognized as though they are owned by the Group.

The presented remaining non-controlling interest in the equity is non-controlling interests where there are no put-options associated. From Q2 2020, the Group has made a change regarding presentation of the non-controlling interests' share of profit, where also the profit shown in the statement of income relates only to the non-controlling interests' where there are no put options associated. The comparative figures for the former periods are also changed.

CONDENSED STATEMENT OF CASHFLOW

MNOK		Second quarter		Year to date		Full Year
	Note	2020	2019	2020	2019	2019
Pre-tax profit		53.7	21.7	108.0	10.7	172.5
Depreciation and amortisations	5,6	31.5	26.5	62.9	53.2	119.6
Received dividend from associated companies		0.0	0.4	1.0	0.4	0.4
Net interest in period		19.4	27.5	46.0	53.3	97.5
Other items without cash effect		6.9	-2.7	11.9	-8.9	-6.3
Change in inventories		-50.3	-7.5	-96.4	-55.0	-45.5
Change in receivables		221.8	-153.3	223.4	175.0	-38.9
Change in payables		245.4	100.6	184.4	-340.7	27.4
Cash flow from operating activities before tax		**528.4**	**13.2**	**541.2**	**-111.9**	**326.7**
Tax paid		-10.0	-10.0	-21.9	-19.5	-34.9
Cash flow from operating activities		**518.4**	**3.2**	**519.2**	**-131.4**	**291.8**
Proceeds from sale of tangible & intangible fixed assets		0.0	0.0	0.1	0.0	0.1
Payments on acquisition of tangible & intangible fixed assets	5,6	-4.4	-4.8	-20.1	-7.2	-20.0
Payments on acquisition of Brands	6	0.0	0.0	0.0	0.0	-0.3
Payments on acquisition of operations		0.0	0.0	0.0	0.0	-50.7
Other investments		-4.3	0.0	-4.3	0.0	0.0
Cash flows from investment activities		**-8.7**	**-4.8**	**-24.4**	**-7.2**	**-70.8**
Payments - co-investment program	7.12	0.0	0.0	0.0	-2.1	-2.1
New debt to financial institutions	8	0.0	0.0	-2.5	0.0	0.0
Repayment debt to financial institutions	8	-17.6	-12.0	-35.2	-24.0	-66.2
Change other long term loans		0.1	0.0	0.1	1.0	1.0
Interest paid in period		-19.3	-27.4	-45.9	-53.2	-97.3
Paid dividend and Group contributions		-0.9	-114.7	-0.9	-115.9	-116.2
Other financing payments		0.0	0.0	0.0	-3.7	-2.9
Cash flow from financing activities		**-37.7**	**-154.1**	**-84.4**	**-197.9**	**-283.7**
Cash flow from discontinued operations		0.0	0.0	0.0	0.0	0.0
Total cash flow		**472.0**	**-155.7**	**410.5**	**-336.5**	**-62.7**
Holdings of cash and cash equivalents at the beginning of period		206.0	79.9	205.0	282.6	282.6
Effect of exchange rate changes on cash and cash equivalents		-2.9	-6.1	59.6	-28.0	-14.8
Holdings of cash and cash equivalents at the end of period		**675.1**	**-81.9**	**675.1**	**-81.9**	**205.0**
Specification of cash and cash equivalents at the end of the period						
Cash and cash equivalents at the end of the period		675.1	98.5	675.1	98.5	205.0
Overdraft cashpool system at the end of the period		0.0	-180.4	0.0	-180.4	0.0
Holdings of cash and cash equivalents at the end of period		**675.1**	**-81.9**	**675.1**	**-81.9**	**205.0**

Notes

NOTE 1 ACCOUNTING PRINCIPLES

The Group's condensed interim financial statements are prepared according to IAS 34 Interim Financial Reporting. The interim reporting does not include all information that is normally prepared in a full annual financial statement and should be read in conjunction with the Group's annual financial statement as at December 31st 2019.

The Board approved the consolidated financial statement for the year 2019 on April 29th 2020.

The accounting principles used in the Group's interim reporting are consistent with the principles presented in the approved financial statement for 2019. There are no significant effects from adoption of new standards effective as of January 1st 2020. The Group has not voluntarily adopted any other standard that has been issued but is not yet mandatory.

As of June 30th 2020, the following exchange rates have been used in translation of income and financial position figures from subsidiaries with functional currency other than NOK:

Exchange rates		Year to date		Year end
		2020	**2019**	**2019**
EUR average rate	Income statement items	10.7562	9.7332	9.8540
EUR closing rate	Balance sheet items	10.9302	9.6842	9.8807
SEK average rate	Income statement items	1.0083	0.9256	0.9308
SEK closing rate	Balance sheet items	1.0405	0.9178	0.9426
DKK average rate	Income statement items	1.4407	1.3038	1.3198
DKK closing rate	Balance sheet items	1.4670	1.2973	1.3228

NOTE 2 REVENUES

The following table present the Group's total external revenues by market:

Group

MNOK	Second quarter		Year to date		Full Year
Total operating revenues	**2020**	**2019**	**2020**	**2019**	**2019**
Norway	361.8	269.7	633.6	489.9	1 124.7
Sweden	289.1	296.2	525.8	533.0	1 074.9
Denmark	27.6	32.4	60.2	60.5	156.0
Finland	75.4	58.8	122.6	99.6	227.7
Germany	11.7	8.9	15.8	13.2	56.9
USA	1.3	1.0	2.4	2.1	4.6
DFTR[1)]	-0.2	30.3	16.4	50.7	111.7
Other	0.5	0.6	1.5	1.2	6.3
Total operating revenues	**767.2**	**698.0**	**1 378.3**	**1 250.1**	**2 762.8**

The following tables present the segments' total external and internal revenues by market:

Spirits

MNOK	Second quarter		Year to date		Full Year
Total operating revenues	**2020**	**2019**	**2020**	**2019**	**2019**
Norway	135.3	97.7	236.1	183.1	463.1
Sweden	48.2	36.2	84.3	65.1	142.2
Denmark	27.2	32.0	59.3	59.7	153.5
Finland	13.2	10.1	23.0	18.8	46.3
Germany	11.7	8.9	15.8	13.2	56.9
USA	1.3	1.0	2.4	2.1	4.6
DFTR[1)]	0.0	27.9	14.6	46.6	102.7
Other	0.5	0.6	1.5	1.2	6.3
Total operating revenues	**237.3**	**214.4**	**437.0**	**389.7**	**975.6**

Wine

MNOK	Second quarter		Year to date		Full Year
Total operating revenues	**2020**	**2019**	**2020**	**2019**	**2019**
Norway	202.3	128.0	345.0	233.3	510.5
Sweden	233.4	252.1	428.4	453.9	904.0
Finland	61.2	48.0	98.2	80.1	179.6
DFTR[1)]	-0.2	2.4	1.7	4.2	9.1
Total operating revenues	**497.4**	**430.6**	**874.8**	**771.7**	**1 603.4**

Logistics

MNOK	Second quarter		Year to date		Full Year
Total operating revenues	**2020**	**2019**	**2020**	**2019**	**2019**
Norway	90.5	81.7	168.1	150.2	328.1
Total operating revenues	**90.5**	**81.7**	**168.1**	**150.2**	**328.1**

[1)] DFTR; Duty Free Travel Retail

NOTE 3 OTHER INCOME AND EXPENSES

Other income and expenses comprises significant positive and negative non-recurring items and restructuring costs. The main purpose of this item is to show these significant non-recurring and non-periodic items, so that the development and comparability of the ordinary items presented in the statement of income are more relevant for the activities.

Other income and expenses during Q2 are mainly related to various business development projects and termination payment agreements.

Group

MNOK	Second quarter		Year to date		Full Year
Other income and expenses	**2020**	**2019**	**2020**	**2019**	**2019**
Salary & personnel cost	-4.4	-7.0	-4.4	-8.5	-9.1
Other operating expenses	-13.9	-4.5	-13.8	-4.5	-10.6
Other income and expenses	**-18.3**	**-11.5**	**-18.2**	**-13.0**	**-19.7**

Spirits

MNOK	Second quarter		Year to date		Full Year
Other income and expenses	**2020**	**2019**	**2020**	**2019**	**2019**
Salary & personnel cost	-1.0	0.0	-1.0	-0.1	-0.7
Other operating expenses	-0.4	-0.8	-0.7	-0.8	-1.3
Other income and expenses	**-1.4**	**-0.8**	**-1.7**	**-1.0**	**-2.0**

Wine

MNOK	Second quarter		Year to date		Full Year
Other income and expenses	**2020**	**2019**	**2020**	**2019**	**2019**
Salary & personnel cost	-3.3	-5.7	-3.3	-6.1	-6.5
Other operating expenses	-0.8	-1.0	-1.1	-1.0	-2.3
Other income and expenses	**-4.0**	**-6.7**	**-4.3**	**-7.2**	**-8.8**

Logistics

MNOK	Second quarter		Year to date		Full Year
Other income and expenses	**2020**	**2019**	**2020**	**2019**	**2019**
Salary & personnel cost	0.0	-1.3	0.0	-1.2	-1.2
Other operating expenses	0.0	0.0	0.0	0.0	-0.4
Other income and expenses	**0.0**	**-1.3**	**0.0**	**-1.2**	**-1.6**

Other

MNOK	Second quarter		Year to date		Full Year
Other income and expenses	**2020**	**2019**	**2020**	**2019**	**2019**
Salary & personnel cost	-0.1	0.0	-0.1	-1.1	-0.7
Other operating expenses	-12.7	-2.6	-12.0	-2.6	-6.6
Other income and expenses	**-12.8**	**-2.6**	**-12.1**	**-3.7**	**-7.3**

NOTE 4 SEGMENT INFORMATION

MNOK	Second quarter		Year to date		Full Year
External sales	**2020**	**2019**	**2020**	**2019**	**2019**
Spirits	175.6	179.2	329.1	318.5	811.9
Wine	493.4	424.7	859.8	761.1	1 574.1
Logistics	79.2	70.5	145.3	128.2	283.0
Other	10.9	11.2	20.0	19.7	41.4
Total external sales	**759.0**	**685.5**	**1 354.1**	**1 227.5**	**2 710.4**

MNOK	Second quarter		Year to date		Full Year
Sales between segments	**2020**	**2019**	**2020**	**2019**	**2019**
Spirits	0.0	0.0	0.0	-0.8	-0.3
Wine	1.0	0.4	2.2	0.7	3.7
Logistics	2.9	2.6	5.5	5.2	10.6
Eliminations	-3.9	-3.0	-7.7	-5.1	-14.0
Total sales revenue between segments	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

MNOK	Second quarter		Year to date		Full Year
External other revenue	**2020**	**2019**	**2020**	**2019**	**2019**
Spirits	0.9	2.2	3.1	3.9	9.7
Wine	1.4	3.9	9.7	6.8	19.9
Logistics	5.2	5.6	10.3	10.7	20.2
Other	0.6	0.7	1.1	1.2	2.6
Total external other revenue	**8.1**	**12.4**	**24.2**	**22.6**	**52.4**

MNOK	Second quarter		Year to date		Full Year
Other revenue between segments	**2020**	**2019**	**2020**	**2019**	**2019**
Spirits	60.8	33.0	104.9	68.1	154.3
Wine	1.6	1.6	3.0	3.1	5.7
Logistics	3.3	3.1	7.0	6.1	14.3
Other	45.3	44.4	90.4	88.4	176.8
Eliminations	-111.0	-82.0	-205.3	-165.7	-351.1
Total other revenue between segments	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

MNOK	Second quarter		Year to date		Full Year
EBITDA	**2020**	**2019**	**2020**	**2019**	**2019**
Spirits	29.1	20.3	47.6	30.1	146.9
Wine	62.6	36.8	98.9	63.6	161.1
Logistics	4.9	0.8	3.2	-1.4	13.8
Other	-19.5	-9.9	-29.7	-23.2	-37.1
Eliminations	23.9	23.1	47.8	46.5	92.7
Total EBITDA	**101.0**	**71.1**	**167.7**	**115.7**	**377.3**

MNOK	Second quarter		Year to date		Full Year
EBIT	**2020**	**2019**	**2020**	**2019**	**2019**
Spirits	22.8	14.0	35.0	17.6	121.6
Wine	60.5	36.1	94.8	62.1	158.0
Logistics	1.9	-1.9	-2.8	-6.9	2.4
Other	-20.9	-11.4	-32.4	-26.3	-43.1
Eliminations	5.1	7.9	10.2	15.9	18.8
Total EBIT	**69.5**	**44.7**	**104.9**	**62.4**	**257.8**

MNOK	Second quarter		Year to date		Full Year
Total comprehensive income for the year	**2020**	**2019**	**2020**	**2019**	**2019**
Spirits	-39.0	8.7	151.0	-22.7	74.7
Wine	44.5	26.0	89.6	44.7	113.8
Logistics	3.1	-1.5	-2.0	-5.1	2.5
Other	-16.2	-10.9	-31.1	-22.9	-42.8
Eliminations	-7.6	-5.3	-14.5	-9.4	-21.4
Total comprehensive income for the year	**-15.1**	**17.0**	**193.0**	**-15.5**	**126.7**

NOTE 5 FIXED ASSETS

MNOK	Second quarter		Year to date		Full Year
Fixed Assets	**2020**	**2019**	**2020**	**2019**	**2019**
Purchase cost at beginning of period	1 888.7	1 578.1	1 863.1	658.0	658.0
Additions tangible fixed assets	4.4	4.0	20.1	6.1	19.1
Additions user rights through lease	0.0	-0.4	0.3	920.1	1 185.0
Transferred from assets under construction	0.0	-0.3	0.0	-0.3	-0.3
Value changes	0.0		0.0	0.0	16.3
Reclassifications	0.0	0.0	0.0	-0.4	-0.3
Purchase price, disposed assets	-4.1	-3.6	-4.1	-4.8	-14.6
Translation differences	-2.4	-0.1	7.1	-1.0	-0.1
Purchase cost at end of period	**1 886.6**	**1 577.7**	**1 886.6**	**1 577.7**	**1 863.1**
Accumulated depreciation at beginning of period	-461.7	-363.2	-431.9	-342.2	-342.2
Accumulated depreciation, disposed assets	4.1	3.5	4.1	4.7	14.5
Ordinary depreciation in period	-27.3	-22.5	-54.6	-45.6	-104.7
Reclassifications	0.0	0.0	0.0	0.4	0.3
Translation differences	0.5	0.2	-2.1	0.6	0.2
Accumulated depreciation at end of period	**-484.4**	**-382.1**	**-484.4**	**-382.1**	**-431.9**
Book Value at end of period	**1 402.1**	**1 195.6**	**1 402.1**	**1 195.6**	**1 431.2**

The table above includes both tangible fixed assets and rights of use assets.

Specification of split tangible fixed assets and rights of use assets

MNOK	Second quarter		Year to date		Full Year
Fixed Assets	**2020**	**2019**	**2020**	**2019**	**2019**
Tangible fixed assets	162.9	149.0	162.9	149.0	152.0
Right of Use assets	1 239.2	1 046.6	1 239.2	1 046.6	1 279.3
Book value at end of period	**1 402.1**	**1 195.6**	**1 402.1**	**1 195.6**	**1 431.2**

Specification of fixed assets per asset category

MNOK	Second quarter		Year to date		Full Year
Fixed Assets	**2020**	**2019**	**2020**	**2019**	**2019**
Land, buildings and other real estate	1 078.3	886.0	1 078.3	886.0	1 107.2
Machinery and equipment	253.3	285.6	253.3	285.6	293.4
Transport & Vehicles	27.4	0.0	27.4	0.0	0.0
Fixtures and fittings, tools, office equipment etc.	13.0	18.7	13.0	18.7	16.9
Assets under construction	30.1	5.4	30.1	5.4	13.6
Book Value at end of period	**1 402.1**	**1 195.6**	**1 402.1**	**1 195.6**	**1 431.2**

NOTE 6 INTANGIBLE ASSETS

MNOK	Second quarter		Year to date		Full Year
Intangible assets	**2020**	**2019**	**2020**	**2019**	**2019**
Purchase cost at beginning of period	2 289.8	2 046.7	2 128.2	2 074.1	2 074.1
Addition of intangible assets	0.0	0.8	0.0	1.1	1.5
Aquistion of business	0.0	0.0	0.0	0.0	61.5
Transferred from assets under construction	0.0	0.3	0.0	0.3	0.3
Translation differences	-52.5	-1.7	109.1	-29.3	-9.3
Purchase cost at end of period	**2 237.3**	**2 046.2**	**2 237.3**	**2 046.2**	**2 128.2**
Acc. depreciation and amortizations at beginning of period	-209.7	-193.9	-205.0	-190.2	-190.2
Depreciation in period	-1.4	-1.8	-2.8	-3.7	-7.2
Amortisations in period	-2.7	-1.9	-5.4	-3.9	-7.7
Translation differences	0.1	-0.1	-0.5	0.1	0.0
Acc. depreciation and amortizations at end of period	**-213.8**	**-197.7**	**-213.8**	**-197.7**	**-205.0**
Book Value at end of period	**2 023.6**	**1 848.5**	**2 023.6**	**1 848.5**	**1 923.2**

Specification of intangible assets

MNOK	Second quarter		Year to date		Full Year
Intangible assets	**2020**	**2019**	**2020**	**2019**	**2019**
Goodwill	1 105.9	1 025.3	1 105.9	1 025.3	1 048.2
Brands	899.1	798.9	899.1	798.9	854.0
Software	18.6	24.2	18.6	24.2	21.0
Book Value at end of period	**2 023.6**	**1 848.5**	**2 023.6**	**1 848.5**	**1 923.2**

NOTE 7 LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

MNOK	Second quarter		Year to date		Full Year
Liabilities at fair value through profit and loss	**2020**	**2019**	**2020**	**2019**	**2019**
Book value at beginning of period	59.6	69.8	69.3	74.2	74.2
Paid during period	-2.1	0.0	-2.1	0.0	0.0
Changes in value during period	1.6	-1.2	-12.9	-3.2	-3.4
Interest during period	0.1	0.0	0.1	0.1	0.2
Translation differences	0.8	-0.7	5.4	-3.1	-1.7
Book value at end of period	**59.8**	**68.0**	**59.8**	**68.0**	**69.3**
From this;					
Current liability	0.0	0.0	0.0	0.0	0.0
Non-current liability	59.8	68.0	59.8	68.0	69.3
Total liabilities through profit and loss	**59.8**	**68.0**	**59.8**	**68.0**	**69.3**

Liabilities at fair value through profit and loss consist of put options regarding minority shares in companies included in the Wine business, held by non-controlling interests.

NOTE 8 INTEREST BEARING DEBT

Interest bearing liabilities, including leasing

MNOK	Second quarter		Year to date		Full Year
Interest bearing debt	**2020**	**2019**	**2020**	**2019**	**2019**
Debt at beginning of period	2 074.6	1 774.7	2 012.2	897.8	897.8
New debt in period	0.0	0.0	0.3	920.3	1 185.4
Value changes	0.0	0.0	0.0	0.0	16.3
Repayments in period	-17.7	0.0	-35.1	-24.1	-66.2
Debt to creditinstitutions in purchased business	0.0	-12.0	0.0	0.0	0.0
Translation differences	-1.1	-9.1	78.5	-40.4	-21.1
Interest bearing debt at end of period	**2 055.8**	**1 753.6**	**2 055.8**	**1 753.6**	**2 012.2**
Capitalized borrowing costs at beginning of period	-5.2	-4.3	-3.1	-4.8	-4.8
Capitalized borrowing costs during period	-2.5	0.0	-2.5	0.0	0.0
Amortized borrowing costs during period	0.5	0.4	1.0	0.8	1.6
Translation differences	2.4	0.0	-0.2	0.1	0.1
Capitalized borrowing costs at end of period	**-4.8**	**-3.9**	**-4.8**	**-3.9**	**-3.1**
Book value interest bearing debt at end of period	**2 050.9**	**1 749.7**	**2 050.9**	**1 749.7**	**2 009.0**

The table above includes both liabilities to financial institutions and lease obligations.

Specification of split liabilities to financial institutions and lease obligations

MNOK	Second quarter		Year to date		Full Year
Interest bearing liabilities	**2020**	**2019**	**2020**	**2019**	**2019**
Liabilities to financial institutions	775.5	684.5	775.5	684.5	703.8
Lease obligations	1 275.4	1 065.2	1 275.4	1 065.2	1 305.2
Book value interest bearing debt at end of period	**2 050.9**	**1 749.7**	**2 050.9**	**1 749.7**	**2 009.0**

Current interest bearing, including leasing and bank overdraft:

MNOK	Second quarter		Year to date		Full Year
Interest bearing liabilities	**2020**	**2019**	**2020**	**2019**	**2019**
Current portion of non-current loans	0.0	0.0	0.0	0.0	0.0
Current portion of non-current lease obligations	71.9	48.8	71.9	48.8	154.2
Bank overdraft	0.0	180.4	0.0	180.4	0.0
Current interest bearing liabilities at end of period	**71.9**	**229.2**	**71.9**	**229.2**	**154.2**

The Group's overdraft facility at SEB has during the quarter been increased from 600 MNOK to 800 MNOK to provide additional liquidity reserves during the potentially volatile situation caused by the COVID-19.

The due date on the group's term loan has also been extended by one year to 24 October 2022.

NOTE 9 TRANSACTIONS WITH RELATED PARTIES

In addition to subsidiaries and associated companies, the Group's related parties are defined as the owners, all members of the Board of Directors and Group senior management, as well as companies in which any of these parties have either controlling interests, board appointments or are senior staff. All transactions with related parties that are not eliminated in the Group accounts are presented below:

Sale and purchase transactions with related parties

MNOK	Second quarter		Year to date		Full Year
Purchase of goods and services	**2020**	**2019**	**2020**	**2019**	**2019**
Tiffon SA	9.9	12.5	26.7	30.2	57.5
Hoff SA	6.1	6.0	10.5	11.9	21.0
Total purchase transactions	**16.0**	**18.6**	**37.2**	**42.1**	**78.5**

MNOK	Second quarter		Year to date		Full Year
Sale of goods and services	**2020**	**2019**	**2020**	**2019**	**2019**
Tiffon SA	0.0	0.0	1.9	0.0	1.2
Total sale transactions	**0.0**	**0.0**	**1.9**	**0.0**	**1.2**

Receivables and debt at end of period

MNOK	**30.06.2020**	**30.06.2019**	**31.12.2019**
Current receivables from related parties			
Tiffon SA	0.0	0.4	0.0
Total current receivables from related parties	**0.0**	**0.4**	**0.0**

MNOK	**30.06.2020**	**30.06.2019**	**31.12.2019**
Non-current receivables from related parties			
Smakeappen AS	0.5	0.0	0.5
Total non-current receivables from related parties	**0.5**	**0.0**	**0.5**

MNOK	**30.06.2020**	**30.06.2019**	**31.12.2019**
Current debt to related parties			
Tiffon SA	1.5	5.0	4.4
Hoff SA	2.7	1.4	0.5
Total current debt to related parties	**4.2**	**6.4**	**4.9**

NOTE 10 FINANCIAL INSTRUMENTS

MNOK	Financial instruments at fair value through profit and loss	Financial instruments at amortized cost	Financial instruments at fair value through OCI	Total book value at end of period
Assets				
Other investments in shares	0.0	0.0	0.3	**0.3**
Other long term receivables	0.0	0.5	0.0	**0.5**
Accounts receivables	0.0	1 047.4	0.0	**1 047.4**
Other receivables[1)]	0.1	62.5	0.0	**62.6**
Cash and cash equivalents	0.0	675.1	0.0	**675.1**
Total financial assets as of second quarter 2020	**0.1**	**1 785.5**	**0.3**	**1 785.9**
Total financial assets as of second quarter 2019	**0.0**	**1 245.3**	**0.0**	**1 245.3**
Liabilities				
Liabilities to financial institutions	0.0	775.5	0.0	**775.5**
Leasing commitments	0.0	1 275.4	0.0	**1 275.4**
Liabilities at fair value through profit and loss	59.8	0.0	0.0	**59.8**
Other non-current term debt	0.0	0.2	0.0	**0.2**
Accounts payable	0.0	665.4	0.0	**665.4**
Other current debt[2)]	0.0	16.6	0.0	**16.6**
Total financial liabilities as of second quarter 2020	**59.8**	**2 733.1**	**0.0**	**2 792.9**
Total financial liabilities as of second quarter 2019	**68.4**	**2 268.3**	**0.0**	**2 336.7**

[1)] Prepayments are not defined as financial assets according to IFRS, and hence not included in the figures.

[2)] Accrued costs and public taxes are not defined as fincanial liabilities according to IFRS, and hence not included in the figures.

Fair value hierarchy

Assets

MNOK	Level 1	Level 2	Level 3	Book Value
Currency derivatives	0.0	0.1	0.0	**0.1**
Total financial assets	**0.0**	**0.1**	**0.0**	**0.1**

Liabilities

MNOK	Level 1	Level 2	Level 3	Book Value
Liabilities at fair value through profit and loss	0.0	0.0	59.8	**59.8**
Currency derivates	0.0	0.0	0.0	**0.0**
Total financial liabilities	**0.0**	**0.0**	**59.8**	**59.8**

There has not been any transfers of financial assets or liabilities between levels during the period.

Changes financial liabilities, level 3

MNOK	Second quarter		Year to date		Full Year
	2020	2019	2020	2019	2019
Financial liabilities, level 3, at beginning of period	59.6	69.8	69.3	74.2	74.2
Fair value at the first time of recognition	0.0	0.0	0.0	0.0	0.0
Paid during the period	-2.1	0.0	-2.1	0.0	0.0
Changes in value during the period	1.6	-1.2	-12.9	-3.2	-3.4
Interest during period	0.1	0.0	0.1	0.1	0.2
Translation differences	0.8	-0.7	5.4	-3.1	-1.7
Financial liabilities, level 3 at end of period	**59.8**	**68.0**	**59.8**	**68.0**	**69.3**

At the end of the period, liabilities measured at fair value, categorized at level 3 in the fair value hierarchy is related to put-options held by non-controlling interests in wine companies in Norway and Sweden. The liabilities for these put-options are estimated on the basis of pricing mechanisms that underlie the shareholder agreements, discounted to the balance sheet date. The main parameters of price mechanisms share value development measured by EBIT (earnings) until the estimated due date, multiplied by a marketbased multiple. As a basis for EBIT, the Group's budgets and long term plans towards expected maturity date is used.

NOTE 11 OPTIONS

The Group has an option programme for senior Group Executives and a few other key personell. During Q2, the General Meeting granted 2,508,879 new options in this programme. The table below show outstanding options from 2018, 2019 and 2020.

As of end of Q2 2020, the Group Excecutive Management holds 3,973,286 options. The share options have a vesting period of three years and the options can be exercised during the next two years. The options will expire after five years.

Changes in outstanding options are shown in the table below;

Number of options	Second quarter		Year to date		Full Year
	2020	2019	2020	2019	2019
Change in number of options:					
Outstanding options beginning of period	3 095 893	2 050 660	3 095 893	2 417 500	2 417 500
Issued during period	2 508 879	2 195 086	2 508 879	2 195 086	2 195 086
Forfeited during the period	0	0	0	-366 840	-1 516 693
Outstanding options end of period	**5 604 772**	**4 245 746**	**5 604 772**	**4 245 746**	**3 095 893**

Option calculation assumptions:		**Options #2020**	**Options #2019**	**Options #2018**
Grant date		June 10th 2020	April 11th 2019	April 11th 2018
Total outstanding options at end of period:		2 508 879	2 033 802	1 062 091
Vesting period - Start		June 2020	April 2019	April 2018
Vesting period - End		June 2023	April 2022	April 2021
Redemption period - Start		June 2023	April 2022	April 2021
Redemption period - End		June 2025	April 2024	April 2023
Share price on the allocation date	NOK	41,00	38,80	43,70
Share price on the balance sheet date	NOK	39,00	39,00	39,00
Redemption price - minimum	NOK	39,02	40,52	45,22
Redemption price - maximum	NOK	123,00	116,40	131,10
Risk-free interest rate	%	0,31 %	0,31 %	0,18 %
Volatility	%	20,0 %	20,0 %	20,0 %
Expected dividend	%	3,9 %	3,9 %	3,9 %

NOTE 12 FINANCIAL INCOME AND EXPENSES

MNOK	Second quarter		Year to date		Full Year
	2020	2019	2020	2019	2019
Interest income	3.2	4.8	10.2	8.7	22.5
Other financial income	6.5	2.2	43.1	3.2	3.4
Total financial income	**9.7**	**7.1**	**53.2**	**11.8**	**25.9**
Interest cost	-18.6	-27.9	-44.2	-53.7	-94.1
Other financial expenses	-6.9	-2.2	-5.9	-9.9	-17.0
Total financial expenses	**-25.6**	**-30.0**	**-50.1**	**-63.5**	**-111.2**
Net financial profit/loss	**-15.8**	**-23.0**	**3.1**	**-51.7**	**-85.3**

NOTE 13 OTHER EVENTS

Events after the close of Q2 2020

COVID-19

During the first half of 2020, Arcus was affected by the global medical and financial crisis following COVID-19. Arcus experienced the first effects from the COVID-19 in March 2020. Even though Q2 is the first full quarter affected by the COVID-19 the results are better than prognosed in the beginning of the crisis. It is still too early to predict how severely the pandemic will affect the various business areas in a medium- and long-term perspective.

Arcus has made use of certain relief and support measures available from governments in different territories to mitigate the effects of COVID-19. Such measures primarily relate to reduced social security contributions, reimbursement of salaries to employees on sick leave or temporarily laid off and delays in payment terms of taxes and other levies.

In Q2 Arcus successfully increased the overdraft facility with SEB for general corporate purposes with maturity October 2022, see note 8 for further information.

COVID-19 is identified as an impairment indicator for certain cash generating units (CGUs) in Spirits, and management has estimated the recoverable amount and compared this to the carrying amount for the relevant CGUs. There is an increased uncertainty about the future performance due to COVID-19 and which increases the sensitivity of the assumptions applied in the impairment assessment.

Management has based its current estimates of future cash flows on the expectation that the businesses will normalize from COVID-19 around the beginning of 2021 and the discount rates are based on an expected stabilization of volatility, risk premiums and interest rates at levels prior to the COVID-19 outbreak. However, management believes it is still too early to predict the full impact that COVID-19 will have on the business and financial markets as the situation is still developing and hence there is a high degree of uncertainty associated with these assumptions.

Based on the impairment tests performed, no impairment is identified in the first half of 2020. Depending on the duration of the COVID-19, and to what extent the business is affected in the medium to long term perspective, it may have an impact on assumptions applied for calculating the recoverable amount for fixed and intangible assets, including goodwill.

During the first half year of 2020 Arcus has been following potential credit loss cases closely and have to some extent also reassessed the loss rates to be applied when estimating provisions for expected credit loss.

Arcus does not expect losses on trade receivables to increase significantly.

Possible merger between Vectura and Cuveco
An agreement on the possible merger between Vectura and Cuveco has not yet been reached at the end of Q2 2020.

Arbitration tribunal regarding breach of competion clause

At the Stockholm Chamber of Commerce, an arbitration tribunal has ruled that former employee Stefan Stjärnström breached the competition clause in his employment contract with Vinunic. Stjärnström will have to repay his severance pay, in addition to Vinunic's legal fees and own costs (see "Other information" for background and further information). The repayment is not material in accounting terms and will be accounted for during Q3 2020.

Other

No other significant events have occurred between the close of Q2 and the date on which Arcus's interim financial statements for Q2 2020 were approved. This applies to events that would have provided knowledge of factors present at the close of Q2 2020, or events concerning matters that have arisen since the close of Q2 2020.

Alternative Performance Measures (APM)

In the discussion of the reported operating results, financial position, cash flows and notes, the Group refers to certain alternative performance measures (APM), which are not defined by generally accepted accounting principles (GAAP) such as IFRS.

Arcus ASA management makes regular use of these alternative performance measures and is of the opinion that this information, along with comparable GAAP measures, is useful to investors who wish to evaluate the company's operating performance, ability to repay debt and capability to pursue new business opportunities. Such alternative performance measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

Gross Profit

Gross profit is defined by Arcus ASA as total operating revenue minus the cost of goods sold.

Gross margin = Gross profit / Total revenue

Group

MNOK	Second quarter		Year to date		Full Year
	2020	**2019**	**2020**	**2019**	**2019**
Total operating revenues	767.2	698.0	1 378.3	1 250.1	2 762.8
Cost of goods	-450.4	-417.4	-800.0	-731.9	-1 601.1
Gross Profit	**316.8**	**280.6**	**578.3**	**518.2**	**1 161.7**

Spirits

MNOK	Second quarter		Year to date		Full Year
	2020	**2019**	**2020**	**2019**	**2019**
Total operating revenues	237.3	214.4	437.0	389.7	975.6
Cost of goods	-124.5	-108.8	-224.6	-190.6	-491.3
Gross Profit	**112.8**	**105.6**	**212.4**	**199.1**	**484.3**

Wine

MNOK	Second quarter		Year to date		Full Year
	2020	**2019**	**2020**	**2019**	**2019**
Total operating revenues	497.4	430.6	874.8	771.7	1 603.4
Cost of goods	-379.7	-333.5	-668.3	-596.0	-1 238.3
Gross Profit	**117.8**	**97.1**	**206.5**	**175.7**	**365.1**

Logistics

MNOK	Second quarter		Year to date		Full Year
	2020	**2019**	**2020**	**2019**	**2019**
Total operating revenues	90.5	81.7	168.1	150.2	328.1
Cost of goods	0.0	0.0	0.0	0.0	0.0
Gross Profit	**90.5**	**81.7**	**168.1**	**150.2**	**328.1**

Other income and expenses

To provide more information in the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. See also detailed specifications of what these items include in note 3 relating to the individual line items.

EBITDA and EBITDA Adjusted

EBITDA is defined by Arcus ASA as operating profit before depreciation, write down and amortisation.

EBITDA adjusted is defined by Arcus ASA as operating profit before depreciation, amortisation and other income and expenses.

EBITDA-margin = EBITDA/Total operating revenue

EBITDA-margin adjusted = EBITDA adjusted /Total operating revenue

Below is a reconciliation from EBIT to EBITDA adjusted:

Group

MNOK	Second quarter		Year to date		Full Year
EBITDA adjusted	**2020**	**2019**	**2020**	**2019**	**2019**
EBIT	**69.5**	**44.7**	**104.9**	**62.4**	**257.8**
Depreciation, amortisations and write downs	31.5	26.5	62.9	53.2	119.6
EBITDA	**101.0**	**71.1**	**167.7**	**115.7**	**377.3**
Other income and expenses	18.3	11.5	18.2	13.0	19.7
EBITDA adjusted	**119.3**	**82.6**	**185.9**	**128.7**	**397.1**

Spirits

MNOK	Second quarter		Year to date		Full Year
EBITDA adjusted	**2020**	**2019**	**2020**	**2019**	**2019**
EBIT	**22.8**	**14.0**	**35.0**	**17.6**	**121.6**
Depreciation, amortisations and write downs	6.3	6.3	12.6	12.5	25.3
EBITDA	**29.1**	**20.3**	**47.6**	**30.1**	**146.9**
Other income and expenses	1.4	0.8	1.7	1.0	2.0
EBITDA adjusted	**30.5**	**21.1**	**49.3**	**31.1**	**148.9**

Wine

MNOK	Second quarter		Year to date		Full Year
EBITDA adjusted	**2020**	**2019**	**2020**	**2019**	**2019**
EBIT	**60.5**	**36.1**	**94.8**	**62.1**	**158.0**
Depreciation, amortisations and write downs	2.1	0.7	4.1	1.5	3.1
EBITDA	**62.6**	**36.8**	**98.9**	**63.6**	**161.1**
Other income and expenses	4.0	6.7	4.3	7.2	8.8
EBITDA adjusted	**66.6**	**43.5**	**103.3**	**70.7**	**169.9**

Logistics

MNOK	Second quarter		Year to date		Full Year
EBITDA adjusted	**2020**	**2019**	**2020**	**2019**	**2019**
EBIT	**1.9**	**-1.9**	**-2.8**	**-6.9**	**2.4**
Depreciation, amortisations and write downs	3.0	2.7	5.9	5.5	11.5
EBITDA	**4.9**	**0.8**	**3.2**	**-1.4**	**13.8**
Other income and expenses	0.0	1.3	0.0	1.2	1.6
EBITDA adjusted	**4.9**	**2.1**	**3.2**	**-0.2**	**15.4**

Parent Company

MNOK	Second quarter		Year to date		Full Year
EBITDA adjusted	**2020**	**2019**	**2020**	**2019**	**2019**
EBIT	**-20.9**	**-11.4**	**-32.4**	**-26.3**	**-43.1**
Depreciation, amortisations and write downs	1.4	1.6	2.7	3.1	6.0
EBITDA	**-19.5**	**-9.9**	**-29.7**	**-23.2**	**-37.1**
Other income and expenses	12.8	2.6	12.1	3.7	7.3
EBITDA adjusted	**-6.7**	**-7.3**	**-17.6**	**-19.5**	**-29.8**

Other definitions alternative performance measures shown in key figures table:

Equity ratio
Equity ratio = Total equity/Total equity and liabilities

Net interest bearing debt
Net interest bearing debt = Liabilities to financial institutions + lease liabilities + bank overdraft - Cash and cash equivalents:

MNOK	**Second quarter**		**Full Year**
Net interest bearing debt	**30.06.2020**	**30.06.2019**	**31.12.2019**
Non-current liabilities to financial institutions	775.5	684.5	703.8
Book value of Capitalized arrangement fees	4.8	3.9	3.1
Non-current lease liabilities	1 203.4	1 016.5	1 151.0
Current lease liabilities	71.9	48.8	154.2
Cash and cash equivalents	-675.1	-98.5	-205.0
Net interest bearing debt	**1 380.6**	**1 835.5**	**1 807.1**

Organic growth

Organic revenue growth represents the Segment's and the Group's revenues, adjusted for currency effects and structural changes, such as acquisitions or divestitures.

Group

MNOK	Second quarter		Year to date	
Total revenues	**2020**	**2019**	**2020**	**2019**
Reported total operating revenues	767.2	698.0	1 378.3	1 250.1
Currency effects	0.0	53.4	0.0	66.9
Structural changes	-6.6	0.0	-9.5	0.0
Baseline organic growth	**760.6**	**751.4**	**1 368.8**	**1 317.0**
Growth	9.9 %		10.3 %	
Organic Growth	1.2 %		3.9 %	

Spirits

MNOK	Second quarter		Year to date	
Total revenues	**2020**	**2019**	**2020**	**2019**
Reported total operating revenues	237.3	214.4	437.0	389.7
Currency effects	0.0	12.5	0.0	16.4
Structural changes	0.0	0.0	0.0	0.0
Baseline organic growth	**237.3**	**226.9**	**437.0**	**406.2**
Growth	10.7 %		12.1 %	
Organic Growth	4.6 %		7.6 %	

Wine

MNOK	Second quarter		Year to date	
Total revenues	**2020**	**2019**	**2020**	**2019**
Reported total operating revenues	497.4	430.6	874.8	771.7
Currency effects	0.0	39.7	0.0	49.0
Structural changes	-6.6	0.0	-9.5	0.0
Baseline organic growth	**490.8**	**470.3**	**865.3**	**820.7**
Growth	15.5 %		13.4 %	
Organic Growth	4.4 %		5.4 %	

Logistics

MNOK	Second quarter		Year to date	
Total revenues	**2020**	**2019**	**2020**	**2019**
Reported total operating revenues	90.5	81.7	168.1	150.2
Currency effects	0.0	0.0	0.0	0.0
Structural changes	0.0	0.0	0.0	0.0
Baseline organic growth	**90.5**	**81.7**	**168.1**	**150.2**
Growth	10.8 %		11.9 %	
Organic Growth	10.8 %		11.9 %	

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ANNUAL REPORT

ANNUAL REPORT 2019

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Arcus ASA

INSTAGRAM

Destilleriveien

ArcusGruppen

FACEBOOK:

ArcusGruppen

Appendix 3B

Financial statements of the Merging Company and the Recipient Company as of 31 December 2018 and 2017

Board report

Report by the Board of Directors

In 2017, Altia's business developed in line with the strategy, delivering profitable growth. Net sales developed positively and were slightly above the previous year reaching EUR 359.0 (356.6) million, an increase of 0.7%. The comparable EBITDA continued to improve, to EUR 42.4 (40.8) million, giving a comparable EBITDA margin of 11.8% (11.5%).

In December, Altia refinanced its loan portfolio and paid an extra dividend of EUR 60.1 million for the financial year 2016. In total, Altia paid EUR 70.5 million as dividends to the owner in 2017 for the financial year 2016. The Board of Directors proposes to the Annual General Meeting that no dividend be paid to the owner for the financial year 2017.

Altia Group's 2017 financial statements are prepared in accordance with IFRS. Comparative information is based on corresponding figures for 2016 (figures in brackets), unless otherwise stated.

KEY RATIOS

	2017	2016
Net sales, EUR million	359.0	356.6
Comparable EBITDA, EUR million	42.4	40.8
% of net sales	11.8	11.5
EBITDA, EUR million	40.3	60.8*
Comparable operating result, EUR million	28.2	26.4
% of net sales	7.8	7.4
Operating result, EUR million	26.1	46.3
Result for the period, EUR million	18.3	36.1
Earnings per share, EUR	0.51	1.00
Net debt / comparable EBITDA	1.1	0.1
Average number of personnel	762	829

*Year 2016 included a net gain of EUR 16.3 million on settlement of defined pension benefit obligation, which has been considered as an item affecting comparability for the year ended 31 December 2016.

Reconciliation of alternative key ratios to IFRS figures are presented on page 34.

Market development

The general market volumes remained largely unchanged in all Altia's main markets in 2017. Consumers continued to favour higher quality and also moved towards lighter alcoholic beverages.

The comprehensive reform of the Finnish Alcohol Act was approved at the end of the year. This reform brings changes in the operating environment from 2018 onwards. In connection with the reform, excise duties on alcohol and alcoholic beverages were also increased at the beginning of 2018. For spirits, the increase was 5%, for wines 13%, and for the other categories changes were between 7.2% and 12.9%.

In the Baltics, Estonia increased excise duty for beer and cider by 70% and 45% respectively. This and planned future increases in alcohol prices in Estonia have opened a market on the Latvian side of the border, serving both Estonian and Finnish consumers.

The following table illustrates the trends in the total sales of alcoholic beverages in Finland, Sweden and Norway. The figures are based on the sales volumes by litre published by the state retail monopolies (Alko, Systembolaget and Vinmonopolet).

DEVELOPMENT OF TOTAL SALES OF ALCOHOLIC BEVERAGES IN THE MONOPOLY MARKETS

% change compared to previous year	2017	2016
Finland, total sales	-0.2	-0.5
Spirits	-0.4	-1.3
Wine	-0.1	-0.2
Sweden, total sales	+0.2	+0.9
Spirits	+0.9	+1.4
Wine	+0.2	+0.9
Norway, total sales	-1.1	+0.7
Spirits	-0.9	+1.0
Wine	-1.1	+0.6

Finland

Towards the year-end, the monopoly sales in Finland increased slightly, but overall sales in 2017 were down by 0.2%. The spirits category sales were down by 0.4%, driven by lower sales of unflavoured vodkas and VS cognacs. Growing categories included XO cognacs and malt whiskies. The slight decline in the wine category was driven by lower sales of red wines but on the other hand rosé and sparkling wines continued growing.

Sweden

In Sweden, the overall monopoly sales continued to grow slightly in 2017. The spirits category grew by 0.9%, driven by good sales of gins, dark rums, fruit liqueurs and bourbon whiskies. Sparkling wines saw the fastest growth in the wine category and continued to take share especially from red wines. The wine category's overall growth was 0.2%.

Norway

In Norway, the 2017 monopoly sales were down by 1.1%. The decline comes from both wines and spirits. Spirits sales decline was driven by grape spirits and vodka, whereas liqueurs and gins continued to grow. In the wine category, red wine continued to lose share to other wines.

Strategy review

The core of Altia's strategy is to deliver profitable growth through five strategic streams as described below.

Grow Nordic core brands

The Nordic core brands consist of Altia's strongest own spirit and wine brands across the Nordic region. Growing the Company's Nordic core brands requires building brand equity (brand awareness and consumer perception, preference and loyalty), communication and presence through the right channels and expanding into new consumer occasions and markets.

Execute a step change in wines

Altia's focus is on driving growth of the own brands wine portfolio by offering new products, brands and packaging. The Company targets to disrupt the growing wine segment with innovations such as differentiated concepts, packaging and wine styles.

Strengthen strategic partnerships

The Company aims to strengthen its strategic partnerships through focusing on growing business with its key partners and increasing and deepening co-operation throughout the value chain.

Channel expansion and development:
The Company's strategy with regards to channel expansion includes developing the Company's retail business and developing e-commerce.

Fund and enable growth - Efficiency and performance initiatives
In addition to the growth initiatives, the Company focuses on continuously improving the overall efficiency. In first instance, this includes improving the efficiencies and finding new capabilities in the supply chain. Agility, flexibility and quality of operations are key elements in improving efficiency and ensuring productivity.

To support the abovementioned organic strategic streams, Altia continues an active brand portfolio management, which includes potential selective acquisitions and/or divestments.

Financial targets and dividend policy
Altia has set the following long-term financial targets:

- Comparable EBITDA margin of 15% in the long-term
- Annual net sales growth of 2 per cent over time
- The Company's target is to keep reported net debt in relation to comparable EBITDA below 2.5x in long-term

Altia pursues an active dividend policy, and the result of the period not considered necessary to grow and develop the company will be distributed to the shareholders. According to the dividend policy, the Company targets a dividend pay-out ratio of 60% or above of the result for the period.

Strategy execution and key events in 2017

New and expanded partnerships
At the beginning of 2017, Altia further developed its partnership with Constellation Brands by expanding the representation for Charles Smith wines to cover in addition to Finland, also Sweden and Norway.

In February, Altia expanded its partnership with Grupo Peñaflor by extending the representation of the wine brand Finca las Moras to cover in addition to Finland also Sweden, Norway and Estonia.

In August, Altia entered into a distribution agreement with Treasury Wine Estates and became the exclusive distributor of Treasury Wine Estates' wine portfolio in retail and on-trade in Finland.

Important milestones achieved in exports
In June, Altia signed a distribution contract with Orange Trading for the exports of Koskenkorva Vodka to Kazakhstan.

In August, Altia signed a distribution agreement with Infinium Spirits to enter the US market with Koskenkorva Vodka.

In November, Altia partnered with Frederick Wildman and Sons to expand the Swedish aquavit O.P. Anderson distribution to the US market.

In December, Altia entered into an agreement with AsiaEuro to expand Larsen Cognac distribution in China and also to Hong Kong, Macau, Singapore, Malaysia and Indonesia.

Successful innovations and product launches in wines
During 2017, Altia launched several novelties and innovations across the home market. One of the most successful launches was the True Colours Cava, which was launched in February with an innovative concept to promote human rights and solidarity and supporting Regnbågsfonden in Sweden. The Xanté brand was further extended with the launch of Xanté Sparkling. Towards the end of the year, the Blossa family was expanded with the annual Blossa and new launches, especially within the non-alcoholic category. The Wine Gallery wine series was a selection of a white and red wine, and a champagne specifically launched to celebrate the jubilee year of Finland's 100 years of independence and was sold only during 2017.

Key events within Altia Industrial
In February, Altia announced its intention to expand the Koskenkorva plant's starch production. The investment has been started during 2017, and as a result the capacity has increased and allowed the plant to use over 200 million kilos of Finnish barley.

In May, the new O.P. Anderson Distillery in Sundsvall Sweden, where all Altia's Swedish aquavit is originated, was opened.

Recapitalisation
In December, Altia refinanced its loan portfolio to include a EUR 135 million syndicated term loan and revolving credit facilities, and a premium loan agreement of EUR 15 million. At the same time, Altia also paid an extra dividend of EUR 60.1 million to the owner.

Ownership
In October, the Ownership Steering Department of the State of Finland announced that it is investigating the possibility of an initial public offering of Altia Plc on the Nasdaq Helsinki Ltd. The State of Finland owns 100 per cent of Altia.

Financial review

NET SALES BY SEGMENT

EUR million	2017	2016	Change, %
Finland & Exports	133.9	133.9	0.0
Scandinavia	123.7	127.4	-2.9
Altia Industrial	101.3	95.2	6.4
TOTAL	**359.0**	**356.6**	**0.7**

NET SALES BY PRODUCT CATEGORY

EUR million	2017	2016	Change, %
Spirits	125.9	129.0	-2.4
Wine	124.7	125.1	-0.3
Other beverages	8.4	8.3	0.8
Industrial products and services	101.3	95.2	6.4
Other	-1.3	-1.1	-21.5
TOTAL	**359.0**	**356.6**	**0.7**

In 2017, Altia Group's net sales totalled EUR 359.0 (356.6) million, corresponding to an increase of EUR 2.4 million, or 0.7% and 1.3% with constant currencies. The increase was mainly driven by a strong demand for industrial products in the Altia Industrial segment as well as continued good level of sales of Altia's core brands and core partner products in Finland, travel and retail, exports and Sweden. The sales volume of consumer products decreased, which was partially compensated by the positive impact of product mix and pricing on the net sales. Net sales was negatively impacted by exchange rate fluctuation of the Swedish and Norwegian krona by approximately EUR 2.1 million.

Other operating income amounted to EUR 8.3 (12.6) million, including proceeds of sales of fixed assets of EUR 1.6 (4.3) million; income from the sales of mainly steam, energy and water of EUR 3.4 (3.7) million; and rental income of EUR 1.0 (0.9) million.

Employee benefit expenses totalled EUR 52.0 (36.6) million, including EUR 40.4 (41.1) million in wages and salaries. Year 2016 included a gain of EUR 16.3 million on settlement of defined pension benefit obligation, which has been considered as an item affecting comparability for the year ended 31 December 2016. The employee benefit expenses included restructuring costs of EUR 1.1 million and costs related to planned listing of EUR 0.9 million in 2017 and restructuring cost of EUR 0.6 million in 2016 that were classified as items affecting comparability. Comparable employee benefit expenses were EUR 50.1 million in 2017 and EUR 52.4 million in 2016, i.e. a decrease of EUR 2.3 million. The decrease was mainly due to a decrease in the number of the Company's employees.

Other operating expenses amounted to EUR 72.9 (74.8) million.

COMPARABLE EBITDA BY SEGMENT

EUR million	2017	2016	Change, %
Finland & Exports	19.6	20.2	-3.0
Scandinavia	11.5	10.4	10.6
Altia Industrial	12.5	8.4	48.5
Other	-1.1	1.9	
TOTAL	**42.4**	**40.8**	**3.8**
% net sales	11.8	11.5	

Comparable EBITDA, i.e. EBITDA excluding items affecting comparability (IAC), was EUR 42.4 (40.8) million, which is 11.8% (11.5 %) of net sales. The increase was mainly due to the adopted efficiency measures as well as streamlining. In addition, the increase was supported by pricing efforts, positive effect of the product mix and premiumisation. Comparable EBITDA was negatively impacted by the decreased sales volume of especially partner wine brands. Reported EBITDA was EUR 40.3 (60.8) million.

Items affecting comparability totalled EUR -2.1 (19.9) million, related mainly to restructuring costs, proceeds from sales of non-core assets and costs related to other corporate development projects and were as follows:

EUR million	2017	2016
Comparable EBITDA	42.4	40.8
Net gains or losses from business and assets disposals	1.3	4.2
Cost for closure of business operations and restructurings	-1.1	-0.6
Major corporate projects		
Change in deferred pension obligation		16.3
Costs related to a planned stock exchange listing	-2.4	
TOTAL ITEMS AFFECTING COMPARABILITY	**-2.1**	**19.9**
EBITDA	40.3	60.8

Net finance expense amounted to EUR 1.9 (2.2) million. The share of profit in associates and income from interests in joint operations totalled EUR 0.9 (0.9) million.

Taxes for the reporting period were EUR 6.7 (9.0) million which corresponds to an effective tax rate of 27.0% (19.9%). The 2017 effective tax rate differs from 2016 due to a re-assessment of deferred tax liability relating to Estonia. More detailed information on Altia's tax footprint is provided in the Annual Report's dedicated section on Corporate Responsibility.

The result for the period amounted to EUR 18.3 (36.1) million, and earnings per share were EUR 0.51 (1.00).

Cash flow, balance sheet and investments

Net cash flow from operating activities in 2017 totalled EUR 37.6 (29.4) million. The receivables sold amounted to EUR 83.6 (85.6) million at the end of the period.

The Group's liquidity reserve comprised a revolving credit facility of EUR 60.0 (50.0) million of which EUR 10.0 (0.0) million was in use as well as an overdraft facility of EUR 10.0 (20.0) million, which was unused as of 31 December 2017. Altia Group's liquidity position was good throughout the period under review.

Altia refinanced its loan portfolio in December 2017. All existing credit facilities were early repaid and an extra dividend of EUR 60.1 million was paid to the owner with the new long-term facilities. The new EUR 135 million syndicated term loan and revolving credit facilities agreement was signed with three banks. The Company drew down a EUR 20.0 million term loan facility and a EUR 55.0 million term loan facility on 18 December 2017 and EUR 10.0 million under the revolving credit facility on 21 December 2017. The EUR 20.0 million term loan facility terminates in 2022, and is repaid in yearly instalments. The EUR 55.0 million term loan facility, which is repaid in full on its termination date, and the EUR 60.0 million revolving credit facility terminate in 2023, unless these are extended by one year pursuant to the agreement.

Altia also diversified its funding alternatives with a premium loan agreement (TyEL pension loan) amounting to EUR 15.0 million maturing in January 2028 with biannual instalments and with fixed interest rate. This loan is fully secured by a loan guarantee issued by Garantia with the same maturity.

The Group's net debt amounted to EUR 47.7 (4.7) million at the end of December, and gearing was 34.9% (2.5%). The equity ratio was 34.3% (44.2%).

BALANCE SHEET KEY FIGURES

	2017	2016
Reported net debt / comparable EBITDA	1.1	0.1
Borrowings	100.1	72.8
Net debt	47.7	4.7
Equity ratio, %	34.3	44.2
Gearing, %	34.9	2.5
Capital expenditure, EUR million	-11.9	-8.7
Total assets, EUR million	398.4	432.7

The reported net debt to comparable EBITDA ratio was 1.1 (0.1).

The total in the consolidated balance sheet decreased to EUR 398.4 (432.7) million. This was primarily due to the reduction of equity and increase in borrowings.

Gross capital expenditure totalled EUR 11.9 (8.7) million during the period. Capital expenditure was primarily related to investments at the Rajamäki plant and the development of information systems.

Business review

Finland & Exports

The Finland & Exports segment comprises the import, sale and marketing of wine and spirits, and other beverages in Finland and the Baltics, as well as travel retail and exports.

EUR million	2017	2016	Change, %
Net sales	133.9	133.9	0.0
Comparable EBITDA	19.6	20.2	-3.0
Comparable EBITDA, % of net sales	14.6	15.0	
Average number of personnel	100	104	

EUR million	2017	2016	Change, %
Spirits	76.1	76.9	-1.1
Wine	56.3	55.8	0.8
Other beverages	1.3	1.2	16.2
Other	0.2	0.0	
TOTAL	**133.9**	**133.9**	**0.0**

Overall net sales in the Finland & Exports segment remained in 2017 on the same level as in the previous year, at EUR 133.9 (133.9) million. All markets in the segment were growing except for Estonia where excise tax changes had a negative impact on the net sales. Increased volume in travel retail and exports through new market openings and increased distribution of Altia's own core brands had a positive effect on the net sales of the segment.

Comparable EBITDA was EUR 19.6 (20.2) million, down slightly due to the declined sales in Estonia. This equals an EBITDA margin of 14.6% (15.0%).

Main events

2017 was an active year in terms of new launches and products, such as Jaloviina Myr-sky, a line extension to the traditional Jaloviina brand, which was launched in February and the Wine Gallery wine series selection, which was launched to celebrate the jubilee of Finland's 100 years of independence and was sold only during 2017.

In August, Altia entered into a distribution agreement with Treasury Wine Estates and became the exclusive distributor of Treasury Wine Estate's wine portfolio in retail and on-trade in Finland, with brands such as Penfolds, Lindeman's, Beringer and Blossom Hill.

In exports, Altia signed new distribution agree-ments to US for both Koskenkorva Vodka and O.P. Anderson and to Asia for Larsen Cognac. In Finland, the annual "Mikä viini" event was held in September in Helsinki, with more than 3,500 professionals, customers and consum-ers visiting the event. The first Koskenkorva Village Experience at the Koskenkorva plant and surroundings was arranged for export customers, journalists and bloggers to show and communicate the origin of the brand and its potential.

Altia continued the brand portfolio develop-ment in the Baltics. In Latvia, the portfolio was restructured during the year focusing on Altia's own core brands.

Scandinavia

The Scandinavia segment comprises the import, sale and marketing of wine and spirits, and other beverages in Sweden, Norway and Denmark.

EUR million	2017	2016	Change, %
Net sales	123.7	127.4	-2.9
Comparable EBITDA	11.5	10.4	10.6
Comparable EBITDA, % of net sales	9.3	8.2	
Average number of personnel	86	87	

EUR million	2017	2016	Change, %
Spirits	49.8	52.1	-4.5
Wine	68.5	69.3	-1.2
Other beverages	7.0	7.2	-1.7
Other	-1.5	-1.1	-35.8
TOTAL	**123.7**	**127.4**	**-2.9**

In 2017, the net sales of the Scandinavia segment declined to EUR 123.7 (127.4) million. The foreign exchange impact was approximately EUR -2.1 million. Excluding foreign exchange impact, the segment's net sales declined by 1.3% or EUR 1.6 million, mainly due to changes in the partner portfolio in Norway.

Comparable EBITDA improved to EUR 11.5 (10.4) million which equals an EBITDA margin of 9.3% (8.2%). The increase was mainly due to increased efforts in marketing and adopted efficiency measures.

Main events

At the beginning of the year, the Charles Smith wines were launched in Sweden and Norway.

One of the most successful events in Sweden in 2017, was the launch of the True Colours Cava.

The Xanté brand was further extended with a new product, the Xanté Sparkling.

Focus in 2017 has been on further developing the digital presence and the Swedish folk-o-folk website.

Blossa performed well during the Christmas season. The marketing program began with a new way of launching the annual Blossa – a successful direct online broadcast instead of a traditional press conference. In addition to the annual Blossa, new products, for example in the non-alcoholic category, were added to the Blossa family.

Altia Industrial

The Altia Industrial segment comprises Koskenkorva plant operations, starch, feed component and technical ethanol businesses, as well as contract manufacturing services at Rajamäki. It also includes supply chain operations, i.e. production operations in different countries, customer service and logistics.

EUR million	2017	2016	Change, %
Net sales	101.3	95.2	6.4
Comparable EBITDA	12.5	8.4	48.5
Comparable EBITDA, % of net sales	12.3	8.8	
Average number of personnel	452	507	

In 2017, Altia Industrial's net sales grew by 6.4% to EUR 101.3 (95.2) million, driven by higher volumes throughout the business. The good demand in starch and feed has enabled to run the Koskenkorva plant more efficiently and volumes were up by 8% compared to the previous year. The investment to increase starch capacity enabled the volume growth.

Comparable EBITDA improved to EUR 12.5 (8.4) million, driven by high capacity utilisation at Koskenkorva plant, higher contract manufacturing volumes at Rajamäki alcoholic beverage plant and efficiency measures in supply chain.

Production volumes and key projects

During 2017, the Rajamäki alcoholic beverage plant in Finland has produced 63.4 (60.9) million litres of spirits and wine.

In 2017, the use of Finnish barley at the Koskenkorva plant reached a record-high of 206.0 (192.2) million kilos, an increase of 7% compared to the previous year which was driven mainly by increased volumes in starch production. Grain spirits production was 22.9 (22.5) million kilos, starch production was 64.5 (57.5) million kilos and feed component production was 59.8 (55.4) million kilos.

The key investments at the Koskenkorva plant were directed to starch capacity (EUR 1.3 million) and the electricity station (EUR 0.7 million). At the Rajamäki site, the work to simplify and digitalise the production environment, including the implementation of ERP system, was completed. A new production line (EUR 1.6 million) that is ideal for smaller batch products was ramped up in Rajamäki alcoholic beverage plant during the second half of 2017.

The O.P. Anderson distillery was opened in Sundsvall, Sweden where all Altia's Swedish aquavit distillates production take place.

The logistics operations in Denmark and Latvia were outsourced in 2017 and the former production plant and logistics centre in Svendborg, Denmark was sold in the second half of 2017.

Research and development activities

The Group's direct research and development expenditure amounted to EUR 3.4 (3.6) million and was related to the product development of alcoholic beverages.

Corporate Governance Statement

A separate Corporate Governance Statement has been issued and published in connection with the Board of Directors' Report. The statement is also available on Altia's website at www.altiagroup.com.

General Meetings' of Shareholders

Annual General Meeting

The Annual General Meeting of Altia Plc was held on 21 March 2017. The Annual General Meeting approved the financial statements for the financial year 2016. The members of the Board of Directors and the CEO were discharged from liability for the financial year 1 January–31 December 2016. As proposed by the Board of Directors, dividend for 2016 was set at EUR 0.29 per share, totalling EUR 10,428,400. The dividend was paid in April.

Extraordinary General Meeting

The Extraordinary General Meeting of Altia Plc held on 15 December 2017 decided on the distribution of an additional dividend of EUR 1.67 per share, totalling EUR 60,053,200.

The General Meeting decided to combine the company's series A and L shares to a single share series and incorporate the shares in the book-entry securities system and amend Altia's Articles of Association accordingly. The General Meeting also decided on further amendments to Altia's Articles of Association by removing the redemption and consent clauses. The General Meeting also elected a new member to the Board of Directors.

Board composition and Board Committees

The Annual General Meeting elected the following members to the Board of Directors:

- Sanna Suvanto-Harsaae, chairman
- Annikka Hurme, vice chairman
- Kim Henriksson
- Tiina Lencioni
- Jarmo Kilpelä
- Kasper Madsen
- Kai Telanne

Board member Jarmo Kilpelä passed away on 28 May 2017. Kasper Madsen resigned from the Board of Directors at the end of August 2017.

The Extraordinary General Meeting of Altia Plc held on 15 December 2017 elected Torsten Steenholt as a new member to the Board of Directors.

The Board of Directors has assessed the independence of its members. All members of the Board of Directors are independent of the company. Jarmo Kilpelä held an office with the Ownership Steering Department of the Prime Minister's Office. All other members of the Board of Directors are independent of the shareholder of the company.

The Board of Directors has two committees, the Audit Committee and the Human Resources Committee. The members of the Audit Committee are Kim Henriksson (chairman), Tiina Lencioni and Sanna Suvanto-Harsaae. The members of the Human Resources Committee are Sanna Suvanto-Harsaae (chairman), Annikka Hurme and Kai Telanne (succeeding Jarmo Kilpelä).

Auditor

Altia Plc's auditor is authorised public accountants PricewaterhouseCoopers Oy, with Ylva Eriksson, APA, as the principal auditor.

Group structure

There were no changes in Group structure during 2017.

Chief Executive Officer and Group Management

In 2017, the Executive Management Team of Altia comprised the following members:

- Pekka Tennilä, CEO
- Janne Halttunen, SVP Scandinavia
- Kari Kilpinen, SVP Finland & Exports (as of 1 September 2017)
- Kirsi Lehtola, SVP Human Resources
- Matti Piri CFO
- Kirsi Puntila, SVP Marketing
- Hannu Tuominen, SVP Altia Industrial

Share capital and shares

The Board of Directors of Altia Plc decided on 13 December 2017 on the cancellation of all 25,003 series L shares held in treasury by the company. On 15 December 2017, the Extraordinary General Meeting decided to combine the company's series A and L shares to a single share series and incorporate the shares in the book-entry securities system and amend the company's Articles of Association accordingly. At the end of 2017, Altia Plc's shares comprise 35,960,000 shares.

The share capital at the end of 2017 was 60,480,378.36 euros.

Altia Plc is fully owned by the State of Finland.

Personnel

In 2017, Altia Group had an average of 762 (829) employees. On 31 December 2017, Altia Group had 703 (797) employees, of whom 411 (448) were in Finland, 117 (125) in Sweden, 21 (30) in Denmark, 29 (32) in Norway, 37 (58) in Latvia, 65 (80) in Estonia, and 23 (24) in France.

The decrease in personnel was primarily due to outsourcing of the logistics operations in Denmark and Latvia, as well as the reorganisation of Altia's Rajamäki plant operations and financial administration in Finland. The arrangements and reorganisations aimed at renewing ways of working as well as improving efficiency.

In 2017, training courses were arranged for the commercial organisation, sales and marketing people and Let's Lead Better training for managers was initiated.

The Altia Tasting personnel survey for 2017 was conducted in January-February 2018. The new survey will give more accurate tools for individual managers to develop their leadership. Additionally, Altia Pulse survey runs monthly.

Altia's employer branding work started in 2017, and the results will be used first in the company's recruitment.

Incentive programmes

Altia's salaried, senior salaried employees and management participate in an annual performance bonus program. The potential annual bonus is based on both the Group's and its business units' targets, as well as on personal targets. Bonuses are paid either once a year or more frequently as an annual bonus or sales bonus. Workers participate in a production bonus system. The production bonuses are based on the targets of each production unit. Altia's CEO, the members of the Executive Management Team and selected key employees are part of a long-term incentive scheme for 2017–2019.

The profit for the period includes a performance bonus accrual amounting to EUR 3.3 (3.0) million. Based on the profit for 2016, annual performance bonuses amounting to EUR 3.7 (3.4) million, including social expenses, were paid in 2017. Sales commissions totalling EUR 0.1 (0.2) million were paid during the year. Production bonuses totalling EUR 0.4 (0.4) million were included in the result for the period.

Corporate Responsibilty

For Altia, responsibility is both a strategic priority and a key success factor in its business. The aim of Altia's efforts in the area of responsibility is to build sustainable long-term business for Altia. Altia wants to promote a modern and responsible Nordic drinking culture in its operating countries in accordance with the company's purpose, Let's Drink Better.

The focus areas of Altia's responsibility work are divided into four cornerstones of responsibility: Altia & Customers, Altia & Society, Altia & Environment and Altia & Employees. The cornerstones are based on Altia's purpose and strategy, stakeholder expectations, the company's own operating principles and codes of conduct, as well as the amfori BSCI Code of Conduct, which in turn is based on key international agreements protecting workers' rights.

During 2017, Altia joined the new contract period of the Energy Efficiency Agreement between Finnish ministries, industry associations and individual companies, as well as the amfori BSCI initiative, which aims at improving social responsibility in supply chains. In addition, future responsibility actions were planned together with representatives from different parts of the organization.

More details can be found in the Non-Financial Statement published in connection with the Report by the Board of Directors and in the Annual Report's dedicated section on Corporate Responsibility.

Health, safety and environment

Occupational health and safety

Altia's goal is to reduce sickness absences, the number of accidents and absences caused by accidents. To achieve this goal, targets and actions to be taken during the year to achieve the targets were defined for different locations. In 2017, the sickness absence rate was 3.3% (2016: 3.2%). The accident frequency (the number of accidents per one million working hours) for accidents requiring at least one day of absence was 11 (2016: 8). There were no fatal work-related accidents in 2017 (2016: 0).

The environment and energy efficiency

Altia's work with environmental matters focuses on minimising the environmental impacts of Altia's own operations. The most significant environmental impacts consist of energy consumption, water consumption, waste water and waste generation. Environmental indicators have been defined to support the reduction of these impacts. Targets and the related actions for the year were defined for different locations.

Energy saving measures is a major development area for the company both in terms of profitability and environmental responsibility. In 2017, Altia joined the new Energy Efficiency Agreement for the period 2017–2025, with the aim of reducing energy consumption by

10% by the year 2025, compared to consumption in the beginning of 2014. Energy use relative to production volume decreased in 2017 at Koskenkorva and at Rajamäki due to measures taken to optimise production and to enhance energy efficiency.

The environmental indicator for reducing waste volume in relation to production volume was lower in 2017 than in 2016, also the total amount of waste decreased. Organic loading of wastewater increased both at Rajamäki and Koskenkorva during the reporting period. Water consumption relative to production increased at Tabasalu and decreased at Rajamäki and Koskenkorva. The absolute amount of water used increased at Rajamäki and Tabasalu. The average waste reutilisation rate for the Rajamäki, Koskenkorva and Tabasalu plants was 99.5% in 2017 (2016: 99.5%).

The bioenergy power plant at Koskenkorva, which uses barley husks as its primary fuel, helped the Koskenkorva plant area reduce carbon dioxide emissions and achieve a 65% self-sufficiency rate in fuels for steam production in the reporting period. During the bioenergy power plant's use, carbon dioxide emissions have decreased by 56% compared to 2014.

Risks and risk management

Risk management

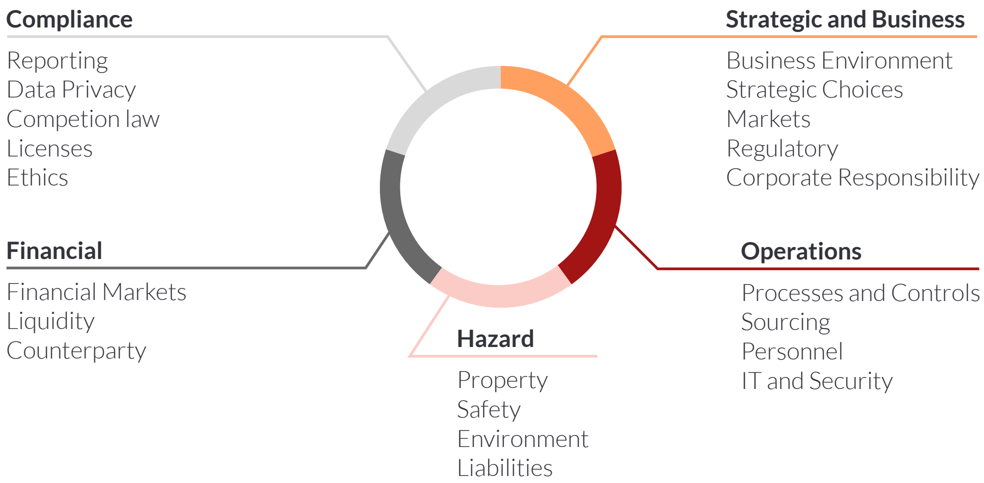
Altia's risk management aims to support the realisation of the company's strategy, risk identification, and means to reduce the likelihood and impact of risk materialisation, and to safeguard the business continuity. Risks may be the result of an internal or external event. The Group's risk management policy has been approved by Altia Plc's Board of Directors.

The risk management policy describes the goals, principles and responsibilities of Altia's risk management and the related reporting principles. In line with this, the risk management steering group supports and coordinates risk management as part of the Group's planning and control processes and reports key risks to the company's management and Audit Committee. The most significant risks and uncertainties are assessed yearly in the Report of the Board of Directors.

Altia's business areas are responsible for risks related to their operations, as well as for their identification, prevention and key limitation methods. The Group's finance department manages financial risks according to the hedging principles defined in the company's financial policy. The management principles of the Group's most significant financial risks are described in more detail in the Notes to the Consolidated Financial Statements, under section 4.1. Financial risk management. The finance department is also responsible for insurance programmes that cover the entire Group.

Altia's risk management process is based on the ISO 31000 standard, as applicable. The Corporate Governance Statement includes a more detailed description of the risk management process.

ALTIA'S RISK CHART



Most significant risks and uncertainties

For reporting and risk assessment purposes, risks are categorised into five classes: strategic and business risks, operational and process-related risks, damage risks, financial risks and compliance risks. The Board of Directors assesses these central risks and the measures aiming to reduce the likelihood of their materialisation every three months.

Strategic and business risks relate to decision-making, resource allocation, management systems and the capacity to respond to changes in the operating environment (Strategy period: long-term, 3–5 years). Responsibility risks related to business operations are described in the Non-Financial Statement published in connection with the Report by the Board of Directors.

Operational risks concern the implementation of strategy and day-to-day business operations. Such risks include deviations in processes, systems and conduct (Budget period: short-term, 1–2 years).

Damage risks are errors, malfunctions and accidents occurring within Altia or its operating environment, resulting in damage or loss.

Financial risks pertain to changes in market prices, the short- and long-term adequacy of financial assets and the ability of counterparties to meet their financial obligations.

Compliance risks involve violations of laws and permits as well as ethically sustainable business practices applicable to the company's operations and industry.

The following table contains a summary of key uncertainties with an either positive or negative effect on Altia's operations:

Risk	Description	Risk management
Raw material price risk	The availability of domestic barley and its market price has a significant impact on the profitability of Altia's business.	Altia ensures the availability of barley with contract farming´ and the price of barley in cooperation with farmers and grain companies.
Risks related to customers and consumer demand	Our customers in Altia's market areas include Nordic retail monopolies, wholesalers who sell alcohol, restaurants, retail stores, travel retail, international wine and spirits companies and importers operating in the export markets. The wide customer base provides Altia with diverse opportunities for the long-term development of customer cooperation. Changes in consumer behaviour may, in the long term, shift the emphasis in the demand for Altia's products between different product categories.	A strong market position, efficient industrial processes, good quality and well-known brands improve Altia's chances to manage the risk. Changes in consumption patterns and the need to adjust operations are prepared for by investing in consumer-driven product development.
Product safety risks	As a wine and spirits company, it is particularly important for Altia to ensure the quality and safety of raw materials and finished goods throughout the supply chain.	Altia employs modern methods to ensure the safety of production processes and to eliminate various microbiological, chemical and physical hazards. In ensuring product safety, Altia complies with the operating methods required by food safety management and quality certificates.
Damage risks	Altia has production facilities in Finland, Estonia and France. A fire or other unforeseen event may interrupt the operations of a production facility.	All of our production facilities have insurance policies for material damage and the interruption of operations in the Group's insurance programme. Key production facilities are subject to a risk survey every 1–2 years. Continuity plans serve to limit any possible loss of profits.
Financial risks	The key risks related to finance in Altia's operations are currency transaction and translation risks, interest rate risks and refinancing and liquidity risks.	Financial risk management aims to mitigate any impact that price fluctuations and other uncertainties in the financial markets have on operating results, the balance sheet and cash flow and to ensure sufficient liquidity. The management principles of the Group's most significant financial risks are described in more detail in the Notes to the Consolidated Financial Statements, under section 4.1. Financial risk management.
Compliance	Key compliance risks in Altia's operations relate to the breach of laws, regulations and decisions by authorities concerning reporting, permits and licenses, marketing of alcoholic beverages, competition law and processing of personal data.	Compliance risk management aims to avoid sanctions, consequences and official investigations and decisions that may damage the company's profitability, business continuity and reputation. Altia aims to manage compliance risks and ensure ethically sustainable business practices with guidance and regular training.

Price risk associated with commodities

Barley

In 2017, Altia consumed approximately 206 million kilos of Finnish barley to produce ethanol and starch. The availability of high-quality domestic barley is ensured through contract cultivation and cooperation with grain growers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of several factors that affect the Finnish barley supply and demand. The price of barley is therefore considered to be a significant risk for Altia during the financial year. The price risk has not been hedged against with derivative instruments.

Electricity

A strong increase in the market price of electricity is a significant risk for Altia. The risk is managed by following Altia's principles for electricity procurement. These principles determine the hedging limits within which the electricity price risk is hedged against. The hedges are executed with OTC-derivatives of Nasdaq OMX Oslo ASA.

The hedging service for electricity procurement has been outsourced.

At the end of 2017, the hedging ratio for deliveries for the next 12 months was 67.6 per cent (68.3 per cent in 2016), in line with the set targets. In 2017, the average hedging ratio was 70.0 per cent.

Cash flow hedge accounting in accordance with IAS 39 is applied to the hedges against electricity price risk, and hedge effectiveness is tested quarterly. The ineffective portion at the end of 2017, EUR -0.1 million (EUR -0.1 million in 2016) is recognised in financial costs.

Altia purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

Sensitivity to market risks

The following table describes the sensitivity of the Group's profit and equity (before taxes) to changes in electricity prices, foreign exchange rates and interest rates. When Altia applies hedge accounting, the sensitivity is directed at equity. When hedge accounting is not applied, the sensitivity is recognised as a potential impact on profit or loss.

The sensitivity to foreign exchange rate changes is calculated from the net currency position resulting from financial instruments.

The total group floating rate liability position consists of floating rate liabilities EUR 85.0 million (2016: EUR 72.5 million, 2015: EUR 95.0 million) and floating leg of interest rate swap EUR 20 million (2016: EUR 20.0 million, 2015: 20.0 million) which is netting the interest rate risk.

A one percentage point increase in interest rates would have an EUR -0.7 million effect in income statement (2016: EUR -0.5 million, 2015: EUR -0.8 million). The effect of increase in market interest rates on the Group's profit is determined from net interest expenses.

Sensitivity of financial instruments to market risks (before taxes) in accordance with IFRS 7	2017		2016		2015	
EUR million	Income statement	Equity	Income statement	Equity	Income statement	Equity
+/-10% electricity	-	+/-0.3	-	+/-0.3	+/-0.1	+/-0.2
+/-10% change in EUR/NOK exchange rate	+/-0.1	-	+/-0.3	-	+/-0.0	-
+/-10% change in EUR/SEKexchange rate	+/-2.0	-	+/-1.2	-	+/-1.9	-
+/-10% change in EUR/USD exchange rate	-/+0.4	-	-/+0.5	-	-/+0.5	-
+/-10% change in EUR/AUD exchange rate	-/+0.2	-	-/+0.2	-	-/+0.2	-

Short-term risks and uncertainties

There have been no significant changes in the short-term risks of Altia Group's operations during the review period.

The most significant uncertainties in the company's operations relate to the overall economic development and its impacts on consumption, as well as the effects of alcohol taxes and legislation on consumer behaviour. Unexpected and unforeseen disruptions in production and deliveries form the major short-term risks related to operations, as well as sudden and significant changes in prices of raw materials, especially related to barley.

Altia Plc's Board of Directors has confirmed the Group Risk Management Policy. Risk management is aimed at supporting the implementation of Altia Group's strategy, the identification of risks and methods for reducing the probability and impacts of risks, as well as ensuring business continuity. Risks may arise from internal or external events.

Outlook

Market outlook

The development of the Group's business operations and profitability are affected by factors such as the market situation and competitive environment, economic outlook, imports by consumers and changes in the alcohol taxation. The uncertainty in the eurozone and changes in customers' buying behaviour are continuing. There is still significant uncertainty related to the development of consumer demand. Raw material prices and currencies are expected to remain volatile.

Seasonality

Sales in the sector are seasonal, with net sales and operating profit generally being significantly higher in the fourth quarter of the year compared to other quarters.

Guidance

The positive trend in Altia's core brand portfolio is expected to continue. Cost increases on key raw materials and expansion in exports impact profitability development.

Group comparable EBITDA is expected to improve or be at the 2017 level.

Dividend proposal

According to the financial statements on 31 December 2017, the parent company's distributable funds amount to EUR 56,763,012.27 including profit for the period of EUR 26,547,860.31.

There have been no significant changes to the parent company's financial position after the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year 2017.

Annual General Meeting 2018

The Annual General Meeting of 2018 will be held on 1 March 2018.

Events after the period

Altia and J. García Carrión have entered into a collaboration regarding the import and distribution of J. García Carrión's wine brands. Altia becomes the exclusive representative of García Carrión's wine portfolio in Sweden as of 2018.

Following the decision by the Extraordinary General Meeting on 15 December 2017, Altia's shares were incorporated in the book-entry securities system on 19 January 2018.

Helsinki, 21 February 2018
Altia Plc
Board of Directors

Non-financial statement

Introduction

Corporate responsibility is both a strategic priority and a key success factor for Altia. The aim of the company's responsibility efforts is to build a sustainable long-term business. Altia wants to promote a modern and responsible Nordic drinking culture. This target is summarised in the company's purpose, "Let's Drink Better". Better drinking can be interpreted as, for example, a drinking culture that is of a higher quality, moderate in quantity, lighter, more social or more environmentally friendly.

Altia has reported on the company's responsibility efforts for nine years in accordance with the model for corporate responsibility reporting for state-owned companies[1] and the Global Reporting Initiative (GRI) guidelines. Hence it was important for the company to start following the EU Directive[2] on non-financial reporting. In accordance with the Directive and the Finnish Accounting Act, this statement provides an overview of Altia's approach to environmental, social and employee, human rights, and anti-corruption and -bribery matters, whereas more detailed information about our responsibility work is provided in the separate section on Corporate Responsibility.

Business model

Altia's business model is based on offering a strong portfolio of its own brands and a versatile range of international partner brands, as well as providing services to its customers that utilise the production, packaging and logistics capacity. In addition, by-products from the production process are sold to industrial customers in other industries. The integrated operating model creates significant economies of scale in sourcing, production and distribution and the company can take advantage of its shared operations, including consumer research, innovation, product development, overall know-how and effective use of centralised support functions. A description of how Altia creates value is included in the Business Overview section.

Environmental matters

a. Policies and ways of working (incl. due diligence)

Altia's work with environmental matters focuses on minimising the environmental impacts of the company's own operations. Altia aims at high material and resource efficiency, and develops products and their packaging with a view to achieve a lower environmental impact. In addition, measures are taken to protect the groundwater resources used as an ingredient in Altia's products.

The environmental aspects considered relevant to the company are assessed at three-year intervals. In the assessment conducted in 2015, the most significant environmental aspects were identified as energy consumption, water consumption, waste water and waste generation. Environmental key performance indicators were defined to support the reduction of these impacts. Plant-specific targets and actions to achieve the targets are set annually, and progress in the indicators is monitored monthly.

The standards, policies and principles relevant to Altia's environment work include:

- Altia Code of Conduct
- Altia Quality Safety and Environment principles
- ISO14001 Environmental Management System standard – certification covers Altia's operations in Finland

b. Principal risks and their management

Environmental risks are assessed regularly as part of the assessment of environmental aspects relevant to Altia and as part of Altia Group's risk management.

The principal risks identified include possible leaks to the ground or waterways (including the groundwater area), overruns of wastewater quality limits in Altia's environmental permits, costs related to maintaining compliance with increasingly stringent environmental regulation, as well as fines or sanctions related to possible non-compliances.

[1] Government Resolution on State Ownership Policy 3 November 2011, Annex 3

[2] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

The risks are mitigated through various measures, including maintaining an environmental management system in accordance with the ISO14001 standard, regular monitoring of wastewater quality, ownership of land in the groundwater areas and monitoring of legislative developments.

c. Outcome & KPIs

As a participant in the voluntary Energy Efficiency Agreement between Finnish ministries, industry associations and companies, Altia's target is to reduce energy consumption by 10% by the year 2025 compared to the consumption in the beginning of 2014. Energy use relative to production volume decreased in 2017 at Koskenkorva and at Rajamäki.

The results of Altia's key environmental indicators are summarised in the table below and discussed in more detail in the Altia & environment part in the section on Corporate Responsibility.

The bioenergy power plant at Koskenkorva has enabled Altia to reduce the plant's carbon dioxide emissions by 56% compared to 2014 and increase fuel self-sufficiency in steam production to 65%.

CASE

Circular economy at Koskenkorva

ALTIA'S KOSKENKORVA distillery utilises the valuable raw material, Finnish barley, in full. All sidestreams of the process are also fully utilised as inputs by other industries or in farming.

Read more:
https://www.altiagroup.com/brands-and-services/our-distillery

KPI	2017	2016	2015
Energy efficiency (MWh/m³ of product or tonne of barley)	Koskenkorva: 0.63 Rajamäki & Tabasalu: 0.28	Koskenkorva: 0.71 Rajamäki & Tabasalu: 0.34	Koskenkorva: 0.87 Rajamäki & Tabasalu: 0.34
Water efficiency (m³/m³ of product or tonne of barley)	Koskenkorva: 2.28 Rajamäki & Tabasalu: 1.46	Koskenkorva: 2.79 Rajamäki & Tabasalu: 1.47	Koskenkorva: 3.9 Rajamäki & Tabasalu: 1.45
Quality of wastewater (kg COD/m³ of product or tonne of barley)	Koskenkorva: 2.23 Rajamäki & Tabasalu: 2.92	Koskenkorva: 1.97 Rajamäki & Tabasalu: 2.71	Koskenkorva: 2.54 Rajamäki & Tabasalu: 2.96
Waste volume (kg/m³ of product)	Rajamäki & Tabasalu: 44.83	Rajamäki & Tabasalu: 49.22	Rajamäki & Tabasalu: 47.52
Average rate of recycling and reutilization	99.5%	99.5%	98.4%
Monetary value of fines and number of non-monetary sanctions (G4-EN29)	0	0	0

Social and employee matters

Consumer and product related matters

a. Policies and ways of working (incl. due diligence)

Product safety is a top priority for Altia, and the company strives to continuously improve the quality of raw materials and final products. Altia markets its products responsibly and in compliance with applicable marketing laws, and provides consumer information in accordance with applicable regulations.

The key processes related to product quality and safety have been defined and relevant instructions are maintained in Altia's management system. Key quality indicators with targets were set starting from 2018. Progress in the indicators is monitored monthly.

Altia wants to build a responsible drinking culture. As the company's own employees are in a key position in driving the change, the Altia Employee Alcohol Policy was launched in 2017. The policy is applicable to all Altia employees and everyone working on Altia's production sites or offices.

Altia's Rajamäki plant is certified for packaging Fairtrade wines. The Koskenkorva distillery, the Rajamäki alcoholic beverage plant and the distillery in Sundsvall are certified for organic production.

The standards, policies and principles relevant to the safety, quality, marketing and consumption of Altia's products include:

- Altia Code of Conduct
- ISO9001 Quality Management standard – certification covers Altia's operations in Finland, as well as the Tabasalu plant in Estonia
- ISO22000 Food Safety Management standard – certification covers Altia's Rajamäki plant
- Altia Quality Safety and Environment principles
- Altia Marketing Guidelines
- Altia Employee Alcohol Policy

b. Principal risks and their management

The risks are assessed as part of quality and safety risk assessments and as part of Altia Group's risk management. The principal risks identified include failure to comply with hygiene requirements, lack of consistency in the quality of products, contamination of products or defects in raw materials or packaging. Such incidents can lead to product recalls or make the company subject to legal claims. As the alcohol business is highly regulated, stricter regulation, for example, regarding marketing or taxation of alcoholic beverages could have an impact on the company's operations.

To manage the risks, Altia maintains quality and food safety management systems in accordance with international standards. Quality is monitored continuously during production by on-line inspection and testing, as well as by analysing the end products. Instructions and process are maintained in view of possible recalls and the situations are practiced regularly by way of phantom testing. Applicable regulation and developments therein are reviewed regularly.

c. Outcome & KPIs

Altia's Rajamäki plant received the ISO22000 food safety certificate in November 2017.
To comply with the standard requirements, hygiene has been improved throughout the plant, training was arranged for all employees through an online platform, quality monitoring during production was enhanced and structural changes such as floor repairs were made, among others.

Key quality indicators will be reported as of 2018.

KPI	2017	2016	2015
Amount of income taxes paid and excise taxes collected	EUR 425.6 million The full tax footprint is available in the section on Corporate Responsibility	EUR 466.3 million The full tax footprint is available in our Responsibility Report 2016.	EUR 474.1 million The full tax footprint is available in our Responsibility Report 2015.

CASE

Argentinian and Finnish knowhow combined in a new Fairtrade wine

AS PART OF its responsibility work, Altia wants to increase the number of organic and ethically certified products in our portfolio. The journey of one of Altia's wines was followed from vineyards in Argentina to Altia's Rajamäki plant in Finland.

Read more:
https://www.altiagroup.com/cases/fairtrade-wine-argentina-combined-finnish-work

Employee matters

a. Policies and ways of working (incl. due diligence)

Altia is committed to building a culture with a motivating and supportive working environment based on safety, openness, equality and trust. The company values diversity and promotes equal treatment and equal possibilities. Altia maintains continuous communications with employees through information and consultation, and respects the freedom of association and the right to collective bargaining. All Altians are expected to respect each other's rights to fair treatment and to act in accordance with Altia Behaviours, a set of principles that were launched at the beginning of 2017 to guide the work of all Altians. The principles are Renew Bravely, Show Direction, Build Success Together and Implement!

Altia wants to ensure safe and healthy working conditions for all its employees. The objectives are to reduce sickness absences, the number of accidents and absences caused by accidents. Plant-specific targets and actions to achieve the targets are set annually, and progress is monitored monthly by way of key performance indicators. Targets are also set and action plans prepared for operating locations that are not within the scope of the OHSAS18001 certification.

The standards, policies and principles relevant to employee matters include:

a. Altia Code of Conduct
b. Altia Behaviours
c. OHSAS18001 Occupational Health and Safety Management standard – certification covers Altia's operations in Finland
d. Altia Quality Safety and Environment principles
e. amfori BSCI Code of Conduct

b. Principal risks and their management

The risks are assessed as part of Altia Group's risk management. The principal risks relate to Altia's abilities to recruit, develop, motivate and retain right competences, to succeed in daily leadership, to maintain good collaboration practices with employees and their unions, as well as the occurrence of accidents. To manage the risks, Altia is in the process of defining an employer value proposition, develops recruitment and retention, conducts employee satisfaction surveys (yearly Altia Tasting and monthly Altia Pulse), maintains frequent collaboration with unions, as well as maintains an occupational health and safety management system in accordance with the OHSAS18001 standard.

c. Outcome & KPIs

In 2017, training was arranged for the commercial organisation, sales and marketing people, and Let's Lead Better training for managers was initiated. Altia employer branding work started during the reporting period, and the results will be used first in the company's recruitment. Altia Behaviours were launched at the beginning of the year and were discussed by teams and integrated into various HR practices, including into performance dialogue discussions. The results of the indicators for occupational health and safety are presented in the table below. There were no fatal work-related accidents.

Altia Tasting survey for 2017 was conducted in January 2018. Results were not available yet at the time of writing the Annual Report 2017 and will therefore be reported as of 2018.

KPI	2017	2016	2015
Sickness absence % (G4-LA6)	3.3	3.2	3.0
Accident absence rate (G4-LA6)	11	8	12
Accident absence % (G4-LA6)	0.29	0.22	0.17
Number of accidents	16	N/A	N/A

The number of accidents has not been monitored in 2015 and 2016 for all sites and therefore figures comparable to 2017 are not available. Accident is defined as any accident leading to at least one day absence. More details about the indicators is available in the Altia & employees part in the section on Corporate Responsibility.

CASE

Altia Behaviours defined through open discussion throughout the company

AT THE BEGINNING of 2017, Altia launched new Altia Behaviours to guide the work of all Altians. The principles were defined by involving everyone through group discussions and online dialogue. Renew Bravely is the new guiding concept.

Read more:
https://www.altiagroup.com/cases/everyone-leader-their-own-work

Human rights matters

a. Policies and ways of working (incl. due diligence)

Altia is committed to respecting and promoting human rights and international labour standards in accordance with the United Nation's (UN) Universal Declaration of Human Rights and the most central agreements of the International Labour Organization (ILO). Altia also expects the same from its suppliers, partners and subcontractors.

Altia's most relevant human rights impacts are related to the sourcing of wines, spirits and raw materials. Altia joined amfori BSCI and amfori BSCI's Sustainable Wine Programme to develop responsible sourcing in April 2017. As a participant, Altia is committed to furthering the principles of the amfori BSCI Code of Conduct in its supply chains. The Code of Conduct's eleven principles are based on key international agreements and frameworks such as ILO conventions and declarations, the UN Guiding Principles on Business and Human Rights, as well as OECD guidelines for multinational enterprises.

Altia's due diligence process is developed continuously and is currently composed of mapping the supply chains of our products and their components, using a questionnaire to gather information about our suppliers' and partners' responsibility work, contractual obligations as well as participation in and utilisation of the amfori BSCI tools, including 3rd party audits. Altia maintains a whistleblowing channel open to all stakeholders and maintained by an independent 3rd party.

The standards, policies and principles relevant to Altia's work with human rights matters include:

- Altia Code of Conduct
- amfori BSCI Code of Conduct
- Altia Code of Conduct for Suppliers and Subcontractors

b. Principal risks and their management

The principal risks are related to Altia's business relationships and lie mostly in the wine, spirits and raw material supply chains, where these extend to countries with a higher risk of possible violations of international labour standards. Further, Altia's customers have demands for social compliance in the supply chains, and any violation of such demands by Altia's suppliers, sub-suppliers or partners could lead to further deliveries of the product being stopped by the customer. The risks are managed through the due diligence process explained above.

c. Outcome & KPIs

Eighteen amfori BSCI audits (full audits or follow-up audits) were conducted at Altia's suppliers, partners or their sub-suppliers in 2017. The key areas with improvement needs identified in those audits include the maintenance of sufficient management systems to ensure social compliance, compliance with regulations regarding working hours, as well as occupational health and safety. In addition, focused inspections were commissioned by Altia's customers at some of our suppliers or partners in South Africa.

During 2017, internal training sessions were held regarding responsible sourcing and amfori BSCI principles, an amfori BSCI audit plan for 2018 was prepared for suppliers for Altia's proprietary brands and the implementation of Altia Code of Conduct for Suppliers and Subcontractors was started. Altia also cooperated with various stakeholders to address the concerns raised by media and NGOs regarding working conditions at South African vineyards.

KPI	2017	2016	2015
Share of purchases from risk countries as identified in amfori BSCI risk country classification	4%	4%	5%
Number of human rights related grievances reported through the whistleblowing channel (G4-HR12)	0	N/A	N/A

The figure for the share of purchases from risk countries in 2016 is restated. The whistleblowing channel was launched in October 2017. The first full year figure will be available in 2018.

CASE

Continuous work to improve working conditions on South African vineyards

OVER RECENT YEARS, various media and NGO reports have brought working conditions in South Africa to the focus. Since late 2016, Altia has worked together with customers, other importers, suppliers and partners to achieve concrete improvements on the ground.

Read more: https://altiagroup.com/cases/concrete-improvements-working-conditions-through-continuous-work

Anti-corruption and -bribery matters

a. Policies and ways of working (incl. due diligence)

Altia has zero-tolerance towards bribery and corruption. The company is committed to operating fairly and to not offering improper benefits to others. Altia also expects its representatives, consultants, agents, subcontractors and other business partners, when performing services for Altia or on its behalf, to unconditionally refrain from corruptive behaviour. Altia does not support, whether directly or indirectly, political parties or organisations. The company also does not participate in financing the election campaigns of individual candidates.

Altia launched its new Anti-Bribery and -Corruption Policy in 2017. As part of the policy, Altia has also defined what is expected from its business partners. All Altians, who work in positions where they may be exposed to a risk of bribery or corruption, are trained about Altia's Anti-Bribery and -Corruption Policy, also through an e-learning platform.

Altia maintains a whistleblowing channel maintained by an independent 3rd party, open to all Altians and external stakeholders. All concerns raised, whether through the channel or through other means, are investigated in accordance with an established process to ensure accuracy, anonymity and fairness.

The standards, policies and principles relevant to anti-corruption and -bribery matters include:

- Altia Code of Conduct
- Anti-Bribery and -Corruption Policy
- Whistleblowing channel

b. Principal risks and their management

Risks are assessed as part of Altia Group's risk management. The principal risks associated with anti-corruption and -bribery matters include a reputation risk caused by any act of corruption or bribery, especially related to key persons and business partners of Altia. In addition, as the alcohol business is often a regulated business, obtaining the necessary licenses and permits is associated with a risk of corruption or bribery, especially in countries with a high corruption index. The risks are mitigated through contractual obligations, 3rd party due diligence checks on suppliers and distributors, where necessary, as well as internal training about the Altia Anti-Bribery and -Corruption Policy.

c. Outcome & KPIs

In 2017, training about Altia's Anti-Bribery and -Corruption Policy was arranged for relevant persons at Altia and the integration of the policy into contracts with relevant business partners was started.

KPI	2017	2016	2015
Communication and training on anti-corruption policies (G4-SO4)	E-training was arranged for relevant persons at Altia	N/A	N/A
Number of anti-corruption and -bribery incidents reported through the whistleblowing channel	0	N/A	N/A

The whistleblowing channel was launched in October 2017. The first full year figure will be available in 2018.

Key ratios of the group

		2017	2016	2015
Income statement				
Net sales	EUR million	359.0	356.6	380.7
Comparable EBITDA	EUR million	42.4	40.8	38.0
% of net sales		11.8	11.5	10.0
EBITDA	EUR million	40.3	60.8	39.7
Comparable operating result (EBIT)	EUR million	28.2	26.4	23.6
% of net sales		7.8	7.4	6.2
Operating result	EUR million	26.1	46.3	25.3
Result before taxes	EUR million	25.0	45.0	23.4
Result for the period	EUR million	18.3	36.1	18.1
Items affecting comparability	EUR million	-2.1	19.9	1.7
Balance sheet				
Cash and cash equivalents	EUR million	52.4	68.0	76.3
Total equity	EUR million	136.8	191.3	168.6
Borrowings	EUR million	100.1	72.8	96.7
Invested capital	EUR million	236.9	264.0	265.3
Profitability				
Return on equity, ROE	%	11.1	20.0	11.6
Return on invested capital, ROI	%	8.0	14.4	7.6
Financing and financial position				
Net debt	EUR million	47.7	4.7	20.4
Gearing	%	34.9	2.5	12.1
Equity ratio	%	34.3	44.2	36.7
Net cash flow from operating activities	EUR million	37.6	29.4	34.8
Net debt/ comparable EBITDA		1.1	0.1	0.5
Share-based key ratios				
Earnings per share	EUR	0.51	1.00	0.50
Equity/share	EUR	3.80	5.32	4.69
Personnel				
Average number of personnel		762	829	879

RECONCILIATION OF ALTERNATIVE KEY RATIOS TO IFRS FIGURES

EUR million	2017	2016	2015
Items affecting comparability			
Net gains or losses from business and assets disposals	1.3	4.2	2.7
Cost for closure of business operations and restructurings	-1.1	-0.6	-1.0
Major corporate projects			
Change in deferred pension obligation	-	16.3	-
Costs related to a planned stock exchange listing	-2.4	-	-
Total items affecting comparability	-2.1	19.9	1.7
Comparable EBITDA			
Operating result	26.1	46.3	25.3
Less:			
Depreciation, amortisation and impairment	14.2	14.5	14.4
Total items affecting comparability	2.1	-19.9	-1.7
Comparable EBITDA	42.4	40.8	38.0
% of net sales	11.8	11.5	10.0
Comparable EBIT			
Operating result	26.1	46.3	25.3
Less:			
Total items affecting comparability	2.1	-19.9	-1.7
Comparable EBIT	28.2	26.4	23.6
% of net sales	7.8	7.4	6.2

Altia presents alternative performance measures as additional information to financial measures presented in the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows prepared in accordance with IFRS. In Altia's view, alternative performance measures provide significant additional information on Altia's results of operations, financial position and cash flows to management, investors, analysts and other stakeholders.

Alternative performance measures should not be viewed in isolation or as a substitute to the IFRS financial measures. All companies do not calculate alternative performance measures in a uniform way, and therefore Altia's alternative performance measures may not be comparable with similarly named measures presented by other companies.

The alternative performance measures are unaudited.

THE DEFINITIONS AND REASONS FOR THE USE OF FINANCIAL KEY INDICATORS

Key figure	Definition	Reason for the use
Operating margin, %	Operating result / Net sales	Operating result shows result generated by the operating activities.
EBITDA EBITDA margin, %	Operating result before depreciation and amortization EBITDA / Net sales	EBITDA is the indicator to measure the performance of the Group.
Comparable operating result Comparable operating margin, % Comparable EBITDA Comparable EBITDA margin, % Items affecting comparability	Operating result excluding items affecting comparability Comparable operating result / Net sales EBITDA excluding items affecting comparability Comparable EBITDA / Net sales Material items outside normal business, such as [net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development].	Comparable EBITDA, comparable EBITDA margin, comparable operating result and comparable operating margin are presented in addition to EBITDA and operating result to reflect the underlying business performance and to enhance comparability from period to period. Altia believes that these comparable performance measures provide meaningful supplemental information by excluding items outside normal business, which reduce comparability between the periods. Comparable EBITDA is an internal measure to assess performance Altia and key performance measure at segment level together with Net Sales. Comparable EBITDA margin is also one of Altia's financial targets. Comparable EBITDA is commonly used as a base for valuation purposes outside the Company and therefore important measure to report regularly.
Invested capital	Total equity + Borrowings	Base for ROI measure.
Return on equity (ROE), %	Result for the period / Total equity (average)	This measure can be used to evaluate how efficiently Altia has been able to generate results in relation to the total equity of the Company.
Return on invested capital (ROI), %	(Result for the period + Interest expenses) / (Total equity + Non-current and current borrowings) (average)	This measure is used to evaluate how efficiently Altia has been able to generate net results in relation to the total investments made to the Company.
Borrowings Net debt	Non-current borrowings + Current borrowings Borrowings – cash and cash equivalents	Net debt is an indicator to measure the total external debt financing of the Group.
Gearing, %	Net debt / Total equity	Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's indebtedness. Important measure for the loan portfolio.
Equity ratio, %	Total equity / Total assets – Advances received	Equity / assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's capital used in the operations.
Net debt / Comparable EBITDA	Net debt / Comparable EBITDA	The level of Net debt / Comparable EBITDA is one of Altia's financial targets.
Earnings / share	Result for the period attributable to shareholders of the parent company/Share-issue adjusted number of shares during the period.	
Equity/share	Equity attributable to shareholders of the parent company /Share- issue adjusted number of shares at the end of period	
Dividend/share	Dividend distribution for period/Number of shares (basic) at the end of period	

Financial statements

Contents to the Financial Statements

SYMBOLS

Accounting

Critical estimates and management judgements

*Part of the Financial Statements

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
NET SALES	1.1.	**359.0**	**356.6**	**380.7**
Other operating income	1.3.	8.3	12.6	10.0
Materials and services	1.4.	-202.0	-197.0	-217.2
Employee benefit expenses	1.5.	-52.0	-36.6	-54.7
Other operating expenses	1.6.	-72.9	-74.8	-79.1
Depreciation, amortisation and impairment	1.7.	-14.2	-14.5	-14.4
OPERATING RESULT		**26.1**	**46.3**	**25.3**
Finance income	3.1.	4.5	1.3	0.8
Finance expenses	3.1.	-6.4	-3.4	-3.6
Share of profit in associates and income from interests in joint operations		0.9	0.9	0.9
RESULT BEFORE TAXES		**25.0**	**45.0**	**23.4**
Income tax expense	6.1.	-6.7	-9.0	-5.2
RESULT FOR THE PERIOD		**18.3**	**36.1**	**18.1**
Result for the period attributable to:				
Owners of the parent		18.3	36.1	18.1
Earnings per share for the result attributable to owners of the parent, EUR				
Basic and diluted	3.6.	0.51	1.00	0.50

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Result for the period		18.3	36.1	18.1
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss				
Remeasurements of post-employment benefit obligations	2.5.	-0.0	-0.4	5.8
Related income tax	6.1.	0.0	0.1	-1.2
Total		**-0.0**	**-0.4**	**4.6**
Items that may be reclassified to profit or loss				
Cash flow hedges		1.4	0.1	-0.0
Available-for-sale financial assets		0.6	-	-
Translation differences	3.6.	-4.0	-2.7	1.5
Income tax related to these items	6.1.	-0.3	-0.0	0.0
Total		-2.3	-2.6	1.5
Other comprehensive income for the period, net of tax		-2.3	-3.0	6.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**16.0**	**33.1**	**24.3**
Total comprehensive income attributable to:				
Owners of the parent		16.0	33.1	24.3

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

EUR million	Note	31 Dec 2017	31 Dec 2016	31 Dec 2015
ASSETS				
Non-current assets				
Goodwill	2.1.	82.1	83.1	84.4
Other intangible assets	2.1.	34.4	36.7	40.7
Property, plant and equipment	2.2.	67.4	70.0	74.6
Investments in associates and interests in joint operations	5.3.	7.6	7.6	7.6
Available-for-sale financial assets	3.2.1.	1.4	0.8	0.8
Other receivables	3.2.2.	1.0	0.3	0.5
Deferred tax assets	6.1.	1.0	4.6	10.7
Total non-current assets		**194.8**	**203.1**	**219.2**
Current assets				
Inventories	2.3.	94.5	96.3	101.2
Trade and other receivables	2.4.	53.9	63.8	59.1
Current tax assets		2.8	1.4	3.5
Cash and cash equivalents	3.2.3.	52.4	68.0	76.3
Total current assets		**203.6**	**229.6**	**240.2**
TOTAL ASSETS		**398.4**	**432.7**	**459.3**

EUR million	Note	31 Dec 2017	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	3.6.			
Share capital		60.5	60.5	60.5
Fair value reserve		0.6	-	-
Hedge reserve		-0.3	-1.4	-1.6
Translation differences		-16.0	-12.3	-9.6
Retained earnings		92.0	144.5	119.3
Total equity		**136.8**	**191.3**	**168.6**
Non-current liabilities				
Deferred tax liabilities	6.1.	17.7	20.7	23.2
Borrowings	3.3.1.	89.1	64.9	88.4
Provisions	2.7.	-	-	1.3
Employee benefit obligations	2.5.	1.3	1.8	21.6
Total non-current liabilities		**108.2**	**87.4**	**134.5**
Current liabilities				
Borrowings	3.3.1.	11.0	7.8	8.3
Provisions	2.7.	-	1.3	2.1
Trade and other payables	2.6.	137.4	142.7	143.5
Current tax liabilities		5.0	2.2	2.4
Total current liabilities		**153.4**	**154.1**	**156.3**
Total liabilities		**261.6**	**241.5**	**290.7**
TOTAL EQUITY AND LIABILITIES		**398.4**	**432.7**	**459.3**

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
CASH FLOW FROM OPERATING ACTIVITIES				
Result before taxes		25.0	45.0	23.4
Adjustments				
Depreciation, amortisation and impairment	1.7.	14.2	14.5	14.4
Share of profit in associates and income from investments in joint operations	5.3.	-0.9	-0.9	-0.9
Net gain on sale of non-current assets	1.3.	-1.6	-4.3	-2.7
Finance income and costs	3.1.	1.9	2.2	2.8
Settlement gain of defined benefit obligation	2.5.	-	-16.5	-
Other adjustments		0.5	-0.1	0.6
		14.1	-5.1	14.1
Change in working capital				
Change in inventories, increase (-) / decrease (+)		1.2	4.9	2.4
Change in trade and other receivables, increase (-) / decrease (+)		9.4	-4.4	15.1
Change in trade and other payables, increase (+) / decrease (-)		-2.6	0.1	-13.8
Change in provisions, increase (+) / decrease (-)		-1.3	-2.1	0.1
Change in working capital		6.7	-1.6	3.9
Settlement of defined benefit obligation	2.5.	-	-4.1	-
Interest paid	3.1.	-1.7	-1.8	-2.2
Interest received	3.1.	0.3	0.3	0.3
Other finance income and expenses paid	3.1.	-2.2	-0.3	-0.7
Income taxes paid	6.1.	-4.6	-2.9	-3.9
Financial items and taxes		-8.2	-4.8	-6.5
NET CASH FLOW FROM OPERATING ACTIVITIES		**37.6**	**29.4**	**34.8**

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
CASH FLOW FROM INVESTING ACTIVITIES				
Payments for property, plant and equipment and intangible assets	2.1. 2.2.	-11.9	-8.7	-11.3
Proceeds from sale of property, plant and equipment and intangible assets	1.3.	2.6	4.5	1.0
Payments for available-for-sale financial assets		-	-0.0	-
Proceeds from sale of available-for-sale financial assets		0.0	-	1.7
Repayment of loan receivables	3.2.2.	0.3	0.2	0.2
Interest received from investments in joint operations	5.3.	0.9	0.9	0.9
Dividends received	3.1.	0.2	0.1	0.1
NET CASH FLOW FROM INVESTING ACTIVITIES		**-7.8**	**-3.1**	**-7.4**
CASH FLOW FROM FINANCING ACTIVITIES				
Changes in commercial paper program		-	-	-13.0
Proceeds from borrowings	3.3.2.	100.0	-	30.0
Repayment of borrowings	3.3.2.	-72.5	-22.5	-60.2
Dividends paid and other distributions of profits	3.6.	-70.5	-10.4	-
NET CASH FLOW FROM FINANCING ACTIVITIES		**-43.0**	**-32.9**	**-43.2**
CHANGE IN CASH AND CASH EQUIVALENTS		**-13.2**	**-6.6**	**-15.8**
Cash and cash equivalents at the beginning of the period		68.0	76.3	91.1
Translation differences on cash and cash equivalents		-2.5	-1.6	1.0
Change in cash and cash equivalents		-13.2	-6.6	-15.8
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3.2.3.	**52.4**	**68.0**	**76.3**

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the parent							
EUR million	Note	Share capital	Fair value reserve	Hedge reserve	Translation differences	Retained earnings	Total equity
Total equity at 1 January 2015		**60.5**	**-**	**-1.5**	**-10.1**	**95.0**	**143.9**
Correction to prior periods	6.5.	-	-	-	-	0.4	0.4
Equity at 1 January 2015, restated		**60.5**	**-**	**-1.5**	**-10.1**	**95.5**	**144.3**
Total comprehensive income							
Result for the period		-	-	-	-	18.1	18.1
Other comprehensive income (net of tax)							
Cash flow hedges		-	-	-0.0	-	-	-0.0
Translation differences	3.6.	-	-	-	0.5	1.1	1.5
Remeasurements of post-employment benefit obligations	2.5.	-	-	-	-	4.6	4.6
Total comprehensive income for the period		**-**	**-**	**-0.0**	**0.5**	**23.8**	**24.3**
EQUITY AT 31 DECEMBER 2015		**60.5**	**-**	**-1.6**	**-9.6**	**119.3**	**168.6**
Equity at 1 January 2016		**60.5**	**-**	**-1.6**	**-9.6**	**119.3**	**168.6**
Total comprehensive income							
Result for the period		-	-	-	-	36.1	36.1
Other comprehensive income (net of tax)							
Cash flow hedges		-	-	0.1	-	-	0.1
Translation differences	3.6.	-	-	-	-2.7	-0.0	-2.7
Remeasurements of post-employment benefit obligations	2.5.	-	-	-	-	-0.4	-0.4
Total comprehensive income for the period		**-**	**-**	**0.1**	**-2.7**	**35.6**	**33.1**
Transactions with owners							
Dividend distribution		-	-	-	-	-10.4	**-10.4**
Total transactions with owners		**-**	**-**	**-**	**-**	**-10.4**	**-10.4**
EQUITY AT 31 DECEMBER 2016		**60.5**	**-**	**-1.4**	**-12.3**	**144.5**	**191.3**
Equity at 1 January 2017		**60.5**	**-**	**-1.4**	**-12.3**	**144.5**	**191.3**
Total comprehensive income							
Result for the period		-	-	-	-	18.3	18.3
Other comprehensive income (net of tax)							
Cash flow hedges		-	-	1.1	-	-	1.1
Available-for-sale financial assets	3.2.1.	-	0.6	-	-	-	0.6
Translation differences	3.6.	-	-	-	-3.8	-0.2	-4.0
Remeasurements of post-employment benefit obligations	2.5.	-	-	-	-	-0.0	-0.0
Total comprehensive income for the period		**-**	**0.6**	**1.1**	**-3.8**	**18.0**	**16.0**
Transactions with owners							
Dividend distribution		-	-	-	-	-70.5	**-70.5**
Total transactions with owners		**-**	**-**	**-**	**-**	**-70.5**	**-70.5**
EQUITY AT 31 DECEMBER 2017		**60.5**	**0.6**	**-0.3**	**-16.0**	**92.0**	**136.8**

The notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

GENERAL INFORMATION

Information on Altia

Altia Plc (the "Company") together with its' subsidiaries (the "Group", "Altia Group" or "Altia") is an international alcoholic beverage service Group, which operates in the Nordic countries, Estonia, Latvia and France producing, marketing, selling and distributing both own and partner brands. Altia distils barley spirit from domestic barley for the basis of its beverages. The production plants are located in Finland and Estonia, and aging and production of cognac in France. Altia has high-quality brands of its own and international brands. In addition, the company represents international brands from all over the world. Altia's business also includes industrial products such as starch and feed, technical ethanol and contract services.

Altia's customers include alcohol retail monopolies, alcoholic beverage wholesale outlets, restaurants, grocery stores, travel trade and importers in the export markets. The company is owned by the State of Finland.

Altia Plc, the parent company of Altia Group, is domiciled in Helsinki, Finland. The registered address of the Company is Kaapeliaukio 1, FI-00180 Helsinki, Finland. Copies of the consolidated financial statements are available online at www.altiagroup.com or at the Group's headquarters at Kaapeliaukio 1, FI-00180 Helsinki, Finland.

Altia Plc's Board of Directors has approved these financial statements for publication in its meeting on 21 February 2018. According to the Finnish Limited Liability Companies Act, shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting also has the right to make a decision to amend the financial statements.

Basis of preparation

The consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 are prepared in accordance with International Financial Reporting Standards (IFRSs) complying with the SIC and IFRIC interpretations in force and approved by EU on 31 December 2017. Notes to the consolidated financial statements also comply with the requirements of the Finnish Accounting Act and Limited Liability Companies Act.

New and amended standards applied in 2017 and future periods are described in Note 6.4.

The consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 has been prepared on a historical cost basis, except financial assets recognised at fair value through profit or loss and assets available-for-sale. The consolidated financial statements are presented in thousands of euros (Annual Reports in millions of euros). The figures are rounded to the nearest thousand, and therefore the sum of individual figures may deviate from the total presented. If the figure is EUR 0, it is shown as a hyphen.

Refer to the table below to see which notes and accounting principles are related.

Nr.	Note	Accounting principle
1.	Operating result	Revenue recognition, operating result
1.2.	Segment information	Operating segments
2.7.	Provisions	Provisions
2.5.	Employee benefit obligations	Employee benefits
2.2.	Property, plant and equipment	Property, plant and equipment
2.3.	Inventories	Inventories
1.6. 2.2.	Other operating expenses Property, plant and equipment	Leases
2.1.	Goodwill and other intangible assets	Goodwill
2.1.	Goodwill and other intangible assets	Intangible assets
3.2. 3.4.	Financial assets Financial assets and liabilities – classification and fair value	Financial assets
3.2.3.	Cash and cash equivalents	Cash and cash equivalents
3.4.	Financial assets and liabilities – classification and fair value	Financial liabilities
3.4. 3.5.	Financial assets and liabilities – classification and fair value Derivatives and hedge accounting	Derivate contracts and hedge accounting
5.2.	Subsidiaries	Consolidation principles of subsidiaries
5.2.	Subsidiaries	Non-controlling interest and transactions with non-controlling interest
5.3.	Investments in associates and interests in joint operations	Associates and joint ventures
6.1.	Income tax expense	Income and deferred taxes

Corrections to prior periods

Accounting for an interest in a joint operations and other reclassifications

In 2017, Altia has taken a detailed review of its shareholder agreement with ABF Overseas Limited ("**ABF**") regarding Altia's interest in Roal Oy in order to confirm the IFRS accounting treatment in Altia's consolidated financial statements. Pursuant to the terms and conditions of the shareholder agreement, Altia is entitled to an agreed annual return for its interest in Roal Oy as minimum dividend, and ABF has a right to redeem Altia's interest in Roal Oy at a fixed amount at the expiry of certain patents. In its consolidated financial statements, Altia had accounted for its interest in Roal Oy as a joint venture pursuant to IFRS 11 applying the equity method of accounting up until the fourth quarter of 2016 when Altia classified the interest as a held for sale asset, assuming that ABF would have exercised its call option during 2017. However, as the exercise of the call is dependent on the expiry of certain patents and a single patent continues to be valid until 2024, Altia's exit from Roal Oy could not take place in 2017. Altia exercises joint control over Roal Oy. However, accounting treatment of the option right held by ABF represents in substance a receivable with a fixed rate of return for Altia, and Altia does not have a right to 50 per cent of the net assets of Roal Oy unless ABF refrains to exercise its option right with respect to Altia's interest in Roal Oy when it is possible pursuant to the shareholder agreement. Accordingly, the interest should have been classified as a joint operation pursuant to IFRS 11 in the consolidated financial statements with Altia accounting for its share of Roal Oy's assets and liabilities as a receivable with the annual minimum dividend accounted for as interest income. The correction did not have impact on the net cash flows from operating activities or the net cash flows from investing activities.

In addition, Altia has reclassified certain trade and other payables to current and non-current provisions to better reflect the nature of such liabilities.

These corrections have been made by restating each of the affected financial statement line items for the prior periods as presented in the note 6.5.

Cash flow statement presentation

In 2017 Altia decided to change its presentation of the consolidated statement of cash flows from direct method to indirect method. Altia believes that the indirect method gives more accurate and reliable information on cash flows from operating activities by disclosing the reconciliation from result before taxes to operating cash flows. The indirect method is also more commonly used method and thus, gives more comparable information on Altia's operating cash flows to it's peers. As a consequence, the presentation of cash flows from operating activities has been restated to reflect the indirect method for the years ended 31 December 2016 and 2015. The indirect method did not change the presentation of the cash flows from investing activities and financing activities.

Accounting policies requiring management judgement and key sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates, which by definition, seldom equal the actual results. In addition, management makes judgements in applying Altia's accounting policies.

Estimates made in the preparation of the financial statements, and related assumptions, are based on the management's best knowledge at the reporting date. Consequently, the realised results can differ from the estimates. Any changes in estimates and assumptions are recognised when estimates and assumptions are corrected.

The Group's most significant area in which the management has exercised judgement is related to the useful lives of intangible assets and parameters used in impairment testing (Note 2.1.). Other critical future assumptions and anticipated uncertainties at the reporting date, which pose a significant risk of resulting in material changes in the carrying amounts of assets and liabilities within the next financial year, are related to employee benefits (Note 2.5.) and deferred taxes (Note 6.1.).

Net sales
359.0
MEUR

1. Operating result

1.1. REVENUES FROM OPERATIONS

Revenue recognition

Net sales are comprised of the fair values determined on the basis of the consideration received or to be received for products or services sold less discounts given, indirect taxes, excise tax, deposit and recycling fees and exchange rate differences.

Revenue from the sale of products is recognised after the significant risks and rewards of ownership of the sold products have been transferred to the buyer, and the Group retains neither a managerial involvement to the degree usually associated with ownership nor effective control of those goods. Usually this means that revenue is recognised upon delivery of goods in accordance with agreed terms of delivery. Revenue from the sale of services is recognised at the time of delivery of services.

The most significant revenue flows are generated by the sale of own products and partner brands. In addition, revenues are generated by contract manufacturing, as well as the sale of industrial products, such as starch, feed and technical ethanol. Adjustments to sales and obligations to repurchase certain products are taken into account in the revenue recognition phase.

The amount of excise tax deducted from sales revenue is significant. The amounts of sales including tax and excise taxes are presented below:

EUR million	2017	2016	2015
Sales revenues deducted with revenue adjustments	804.5	819.8	849.6
Excise tax	-445.5	-463.2	-468.9
NET SALES	**359.0**	**356.6**	**380.7**
Tax share of sales revenues, %	55.4%	56.5%	55.2%

1.2. SEGMENT INFORMATION

Description of segments and principal activities

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments.

The Board of Directors of Altia has been determined as the Company's current chief operative decision maker, and the reportable segments are based on the Altia's operating structure and internal reporting to the CODM used to assess the performance of the segments. For internal reporting purposes, reporting on the segment profit is based on an internal measure of a comparable EBITDA derived as follows:

- Net sales and direct segment expenses reported within the Comparable EBITDA segment profit measure are measured on an accrual basis and reported under the same accounting principles as in the consolidated accounts.
- Expenses allocated to the segments related to shared function costs or business support services expenses comprise costs such as centralized marketing costs, IT infrastructure related costs, shared support services, headquarter costs including finance and treasury, communication, legal and human resource related costs as well as certain warehousing and service fees. For internal reporting purposes these cost allocations are based on budgeted amounts and variances from budgeted amounts are presented under column "Unallocated and adjustments" and can result in either incurred overruns or savings compared to budgeted amounts. These variances are not allocated to the segments for internal reporting purposes.
- The unallocated and adjustments column represents in addition to the budget variances, certain unallocated headquarter costs.

Segment net sales and results

The following tables set out the segment net sales and Comparable EBITDA as well as the reconciliation of the Comparable EBITDA to the group's operating result:

	1 Jan - 31 Dec 2017				
EUR million	**Finland & Exports**	**Scandinavia**	**Altia Industrial**	**Unallocated and adjustments**	**Group**
Net sales, total	134.4	124.4	148.7		407.5
Net sales, Internal	-0.5	-0.7	-47.4		-48.6
Net sales, external	**133.9**	**123.7**	**101.3**		**359.0**
Comparable EBITDA	19.6	11.5	12.5	-1.1	42.4
Items affecting comparability[1]					-2.1
EBITDA					**40.3**
Depreciation, amortisation and impairment					-14.2
OPERATING RESULT					**26.1**

	1 Jan - 31 Dec 2016				
EUR million	**Finland & Exports**	**Scandinavia**	**Altia Industrial**	**Unallocated and adjustments[2]**	**Group**
Net sales, total	134.4	127.9	141.0		403.4
Net sales, Internal	-0.4	-0.5	-45.9		-46.8
Net sales, external	**133.9**	**127.4**	**95.2**		**356.6**
Comparable EBITDA	20.2	10.4	8.4	1.9	40.8
Items affecting comparability[1]					19.9
EBITDA					**60.8**
Depreciation, amortisation and impairment					-14.5
OPERATING RESULT					**46.3**

[1] Items affecting comparability comprise of material items incurred outside normal business, such as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development. In year 2016 the items affecting comparability includes a net settlement gain of defined benefit obligation of EUR 16.3 million, see also Notes 1.5. Employee benefit expenses and 2.5. Employee benefit obligations. Gains on sale of property, plant and equipment and intanglibe assets are presented in Note 1.3. and employee costs related to restructuring in Note 1.5.

[2] 2016 unallocated and adjustments (net) includes cost savings realized from group level activities including realized savings due to the headquarter move, cost savings related to centralized product development programs and reductions in personnel costs in addition to unallocated headquarter costs. Cost savings in this extent are not frequent compared to the budgeted amounts, however, for internal reporting purposes, these positive variances are not allocated to the operating segments.

Other entity-wide disclosures

Net sales by geography

Net sales broken down by the location of Altia entity for the years ended 31 December 2017 and 2016 were as follows:

EUR million	2017	2016
Finland	202.4	189.9
Sweden	96.1	96.6
Norway	23.7	26.7
Estonia	10.3	14.9
Latvia	9.4	9.2
Denmark	12.7	16.9
Other countries	4.3	2.4
NET SALES, TOTAL	**359.0**	**356.6**

In Finland & Exports segment, net sales of EUR 80.5 million (2016: EUR 80.7 million) were derived from a single external customer. In Scandinavia segment, net sales of EUR 78.8 million (2016: EUR 77.9 million) were derived from a single external customer. In Altia Industrial segment, net sales of EUR 44.5 million (2016: EUR 40.7 million) were derived from a single external customer. No other single external customer represented more than 10 per cent or more of Altia's total net sales for the years ended 31 December 2017 or 2016.

Non-current assets by geography

The total of non-current assets other than financial instruments and deferred tax assets broken down by the location of the assets as at 31 December 2017 and 2016 were as follows:

EUR million	2017	2016
Finland	115.7	114.5
Sweden	48.2	51.8
Norway	0.1	0.1
Estonia	2.6	3.0
Latvia	0.2	0.3
Denmark	7.2	10.0
Other countries	9.8	10.2
NON-CURRENT ASSETS BY GEOGRAPHY, TOTAL	**183.8**	**189.9**

1.3. OTHER OPERATING INCOME

Other operating income mainly includes gains on the disposal of non-current assets, income from sale of energy, water, steam and carbon dioxide, rental income and related non-core business service income and contract termination fees.

EUR million	2017	2016	2015
Gains on sale of property, plant and equipment and intangible assets	1.6	4.3	1.0
Gains on sale of available-for-sale financial assets	-	-	1.7
Rental income	1.0	0.9	0.7
Income from sale of energy, water, steam and carbon dioxide	3.4	3.7	3.4
Other income	2.3	3.6	3.2
TOTAL	**8.3**	**12.6**	**10.0**

1.4. MATERIALS AND SERVICES

EUR million	2017	2016	2015
Raw materials, consumables and goods			
Purchases during the period	196.6	188.8	210.3
Change in inventories	1.9	4.9	2.5
Scrapping and obsolescence	2.0	1.9	2.5
External services	1.6	1.4	1.9
TOTAL	**202.0**	**197.0**	**217.2**

Materials and services consist of cost of material, such as barley, wine, different spirit, liquids, ground water as well as other ingredients needed for a variety of different drinks, packaging materials, production costs, changes in inventories, scrapping and obsolescence costs and external services such as logistics and warehousing.

1.5. EMPLOYEE BENEFIT EXPENSES

EUR million	2017	2016	2015
Wages and salaries	40.4	41.1	42.7
Pension expenses			
Defined contribution plans	5.9	5.5	6.0
Defined benefit plans	-	-16.2	0.4
Other social expenses	5.8	6.1	5.6
TOTAL	**52.0**	**36.6**	**54.7**

In Altia, the total wages and salaries of personnel consists of fixed and variable pay, allowances, short and long-term incentives and fringe benefits.

The group has recognised the total amount of incentives EUR 3.3 million (2016: EUR 3.0 million, 2015: EUR 3.6 million) in the form of cash bonuses. Employee benefit expenses in 2016 include a gain of EUR 16.5 million on settlement of defined benefit obligation. Employee benefit expenses include personnel related restructuring costs of EUR 1.1 million (2016: EUR 0.6 million, 2015: EUR 1.0 million).

Average number of personnel during the period	2017	2016	2015
Workers	294	328	360
Clerical employees	468	501	519
TOTAL	**762**	**829**	**879**

More information on the Group's pension plans is presented in Note 2.5.

Information of management remuneration is presented in Note 6.3. related party transactions.

1.6. OTHER OPERATING EXPENSES

EUR million	2017	2016	2015
Losses on sales and disposals of property, plant and equipment and intangible assets	0.2	0.8	0.5
Rental expenses	6.0	6.8	7.4
Marketing expenses	15.1	16.1	16.5
Travel and representation expenses	2.8	3.0	3.2
Outsourcing services	8.9	7.7	8.1
Repair and maintenance expenses	6.8	6.2	8.5
Cars and transport services	0.7	0.6	0.6
Energy expenses	7.2	9.2	10.3
IT expenses	6.5	5.0	5.2
Variable sales expenses	11.3	11.5	11.9
Other expenses	7.5	7.8	7.0
TOTAL	**72.9**	**74.8**	**79.1**

Auditor's fees included in other operating expenses	2017	2016	2015
Audit fees	0.3	0.3	0.3
Tax consultation	0.0	0.0	0.2
Other fees	0.4	0.1	0.0
TOTAL	**0.7**	**0.4**	**0.4**

Rental expenses include leases treated as operating lease, when the lessor retains the risks and rewards of ownership for the leased asset. Payments made under operating lease are recognised as expenses on a straight-line basis over the lease term. Altia leases office space, cars and forklifts under operating lease.

1.7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation and amortisation by asset categories is as follows:

EUR million	2017	2016	2015
Amortisation on intangible assets			
Trademarks	4.4	4.3	4.5
Software and other intangible assets	1.1	1.3	1.2
Total amortisation	**5.5**	**5.6**	**5.6**
Depreciation on property, plant and equipment			
Buildings	3.2	3.1	3.0
Machinery and equipment	5.2	5.3	5.2
Machinery and equipment, acquired through finance leases	0.3	0.4	0.5
Other tangible assets	0.0	0.0	0.0
Total depreciation	**8.7**	**8.9**	**8.8**
TOTAL DEPRECIATION AND AMORTISATION	**14.2**	**14.5**	**14.4**

Group's depreciation and amortisation methods and periods are described in Note 2.1. Goodwill and other intangible assets and in Note 2.2. Property, plant and equipment.

1.8. RESEARCH AND DEVELOPMENT EXPENDITURES

Operating result includes research and development expenditures amounting to EUR 3.4 million (2016: EUR 3.6 million, 2015: EUR 3.4 million).
The R&D expenditures represents 0.9% of net sales in 2017 (2016: 1.0%, 2015: 0.9%).

2. Operative assets and liabilities

2.1. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets other than goodwill are recorded at historical costs and depreciated over their useful lives. Intangible assets include goodwill, trademarks, software and other intangible assets and prepayments.

Goodwill

Goodwill arising on the business acquisition is recognised as the excess of the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

For the purpose of impairment testing, goodwill is allocated to the groups of cash-generating units (CGU) that are expected to benefit from the business combinations in which the goodwill was generated. Impairment testing is described in more detail later in this note.

Other intangible assets

Other intangible assets include intangible rights, other intangible assets and prepayments for intangible assets. Intangible assets such as patents and IT-software, with finite useful lives, are recognised in the balance sheet at the original acquisition cost less accumulated amortisation and possible impairment.

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives.

The estimated useful lives of intangible assets are as follows:

Trademarks	10–15 years
IT-development and software	3–5 years

The costs related to the intangible assets are capitalised if it can be demonstrated that the asset will generate the future economic benefits, the entity controls the asset and the cost of the asset can be measured reliably. All other expenditure is recognised as an expense as incurred.

Expenditure on research activities is recognised in profit or loss in the period in which it is incurred. The Group has no projects related to the development activities of new products or processes qualifying for the identifiability and other criteria regarding capitalisation under IFRS.

Accounting for emission allowances is described in Note 6.2. Emission allowances are presented as off-balance sheet items.

Critical estimates and management judgements – Useful lives of trademarks

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives. Management has estimated the useful lives of trademarks to be in a range from 10 to 15 years. However, the actual useful life may be shorter or longer than the estimated range depending on the market trends and customer behavior.

GOODWILL AND OTHER INTANGIBLE ASSETS

EUR million	Goodwill	Trademarks	Software and other intangible assets	Pre-payments	Other intangible assets total
Acquisition cost at 1 January 2017	144.7	129.9	18.8	1.7	150.4
Additions	-	-	-	3.8	3.8
Disposals	-	-	-2.2	-	-2.2
Effect of movement in exchange rates	-11.4	-3.2	-0.0	-	-3.3
Transfers between items	-	-	2.7	-2.7	-0.0
Acquisition cost at 31 December 2017	133.3	126.7	19.3	2.8	148.7
Accumulated amortisation and impairment losses at 1 January 2017	-61.6	-97.7	-16.0	-	-113.7
Amortisation	-	-4.4	-1.1	-	-5.5
Accumulated amortisation on disposals and transfers	-	-	2.0	-	2.0
Effect of movement in exchange rates	10.4	2.8	0.0	-	2.9
Accumulated amortisation and impairment losses at 31 December 2017	-51.3	-99.3	-15.1	-	-114.4
Carrying amount at 1 January 2017	83.1	32.2	2.9	1.7	36.7
CARRYING AMOUNT AT 31 DECEMBER 2017	**82.1**	**27.4**	**4.2**	**2.8**	**34.4**

EUR million	Goodwill	Trademarks	Software and other intangible assets	Prepayments	Other intangible assets total
Acquisition cost at 1 January 2016	144.2	131.5	19.8	0.9	152.1
Additions	-	0.3	0.2	2.4	2.9
Disposals	-	-0.1	-2.6	-0.2	-2.8
Effect of movement in exchange rates	0.5	-1.8	-0.0	-	-1.9
Transfers between items	-	-	1.5	-1.4	0.1
Acquisition cost at 31 December 2016	144.7	129.9	18.8	1.7	150.4
Accumulated amortisation and impairment losses at 1 January 2016	-59.8	-94.7	-16.7	-	-111.4
Amortisation	-	-4.3	-1.3	-	-5.6
Accumulated amortisation on disposals and transfers	-	0.1	2.0	-	2.1
Effect of movement in exchange rates	-1.8	1.2	0.0	-	1.2
Accumulated amortisation and impairment losses at 31 December 2016	-61.6	-97.7	-16.0	-	-113.7
Carrying amount at 1 January 2016	84.4	36.7	3.1	0.9	40.7
CARRYING AMOUNT AT 31 DECEMBER 2016	**83.1**	**32.2**	**2.9**	**1.7**	**36.7**

Acquisition cost at 1 January 2015	150.5	130.8	18.0	1.5	150.3
Additions	-	0.1	0.0	1.2	1.2
Disposals	-	-	-0.0	-	-0.0
Effect of movement in exchange rates	-6.3	0.6	0.0	-	0.6
Transfers between items	-	-	1.7	-1.8	-0.1
Acquisition cost at 31 December 2015	144.2	131.5	19.8	0.9	152.1
Accumulated amortisation and impairment losses at 1 January 2015	-67.2	-90.0	-15.6	-	-105.6
Amortisation	-	-4.5	-1.2	-	-5.7
Accumulated amortisation on disposals and transfers	-	-	0.0	-	0.0
Effect of movement in exchange rates	7.4	-0.2	-0.0	-	-0.2
Accumulated amortisation and impairment losses at 31 December 2015	-59.8	-94.7	-16.7	-	-111.4
Carrying amount at 1 January 2015	83.3	40.8	2.5	1.5	44.7
CARRYING AMOUNT AT 31 DECEMBER 2015	**84.4**	**36.7**	**3.1**	**0.9**	**40.7**

The most significant trademarks include Renault, Larsen, Xanté, Blossa, Chill Out, Explorer, Grönstedts, Bröndums and 1-Enkelt. Software and other intangible assets are mainly computer software.

Impairment testing

Book value of assets are assessed to determine whether there are any impairment at least at the end of each financial year. If any evidence of impairment emerges (a triggering event), the assets' recoverable amount is estimated. The recoverable amount is determined on the basis of value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is immediately recognised in profit or loss and the estimated useful life of the asset in question is reassessed when an impairment loss is recognised. The recoverable amounts of goodwill and intangible assets not yet available for use are estimated annually. The need for recognising an impairment loss is assessed at cash-generating unit level. This level is essentially independent from other units with separate cash flows.

The impairment loss is reversed if there has been such a positive change in the estimates used to determine the recoverable amount of the asset or cash-generating unit that recoverable amount of the asset will increase the book value of asset. Impairment losses are only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. An impairment loss on goodwill is never reversed.

Critical estimates and management judgements – Impairment testing:

The preparation of calculations for the impairment testing of goodwill requires estimates regarding the future. The management's estimates and related critical uncertainties are related to the components of the recoverable amount calculation, including the discount rate, the terminal growth rate and development of the net sales and operating result, including estimated cost levels of main raw materials and energy. The discount rates reflect current assessments of the time value of money and relevant market risk premiums reflecting risks and uncertainties for which the future cash flow estimates have not been adjusted. The discount rates used, expected net sales growth rates and profitability levels, including sensitivity analyses, are stated below.

Impairment testing of goodwill

Allocation of goodwill

Goodwill is allocated to groups of cash-generating units (CGU) that represent the level on which the management monitors the goodwill.

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments. Goodwill is monitored by management at the level of the operating segments. The goodwill has been reallocated to the operating segments in 2017 in line with the current management structure and goodwill monitoring levels.

A segment-level allocation of the goodwill at 31 December 2017 is presented below:

EUR million	2017	%
Finland & Exports	46.5	56.6%
Scandinavia	35.6	43.4%
TOTAL	**82.1**	**100.0%**

In line with Altia's management structure in 2016, a cash-generating unit was typically a country-specific sales unit or a group thereof. Goodwill was allocated to three groups of CGUs: Markets Finland, Markets Sweden and Other Markets. Other markets included sales units in Norway, Denmark, Estonia and Latvia. A CGU-specific allocation of goodwill in 2016 and 2015 is presented in the table below:

EUR million	2016	%	2015	%
Markets Finland	44.7	53.8%	44.7	53.0%
Markets Sweden	35.4	42.6%	36.7	43.5%
Other Markets	2.9	3.5%	2.9	3.5%
TOTAL	**83.1**	**100.0%**	**84.4**	**100.0%**

Impairment testing

The key assumptions in impairment testing are operating result and discount rate.

The goodwill allocated to the Group's cash-generating units is tested for impairment annually or when there is reason to assume that the carrying amount has exceeded the recoverable amount, with the carrying amount compared to the recoverable amount in the testing. The annual impairment tests have been carried out on 31 October 2017, 31 October 2016 and 31 October 2015. At the time of testing, the companies did not have intangible assets with indefinite useful lives other than goodwill.

The cash flow estimates used are based on CGU-specific financial plans for the following year approved by the Group's management. The forecast period applied for the calculations covers five years, beyond which the cash flow projections are extrapolated using a constant market-specific growth rate estimate. The forecasted cash flows for a longer term than this have been estimated by using an annual growth rate estimate of 1.0%. In the view of the management, these growth estimates represent the development of business operations in the longer term pursuant to the forecasts.

The market-specific WACC estimates are based on external market-specific references. Management makes judgements regarding the development of assumptions other than WACC based on internal and external views of the industry's history and future.

The weighted average costs of capital used as discount rates for the cash flow estimates are presented in the enclosed table for year 2017:

Used pre-tax discount rate %	2017
Finland & Exports	7.0%
Scandinavia	6.8%

The weighted average costs of capital used as discount rates for the cash flow estimates are presented in the enclosed table for years 2016 and 2015:

Used pre-tax discount rate %	2016	2015
Markets Finland	7.0%	7.3%
Markets Sweden	7.1%	7.7%
Other markets	7.0%	7.9%

The estimated average operating margins used in the calculations are presented in the enclosed table for year 2017:

Projected average operating result %	2017
Finland & Exports	14.5%
Scandinavia	9.3%

The estimated average operating result margins used in the calculations are presented in the enclosed table for years 2016 and 2015:

Projected average operating result %	2016	2015
Markets Finland	17.2%	18.1%
Markets Sweden	11.0%	11.4%
Other markets	6.8%	5.7%

Based on the analyses prepared by the company, no reasonably possible change in any of the key assumptions would cause any of the tested unit's recoverable amount to decrease to be equal to its carrying amount.

2.2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

Property, plant and equipment mainly consist of manufacturing and warehouse buildings, land, and machinery and equipment used in alcoholic beverage industry. Property, plant and equipment are measured at historical cost less accumulated depreciation and possible impairment losses. If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. The subsequent costs related to the items of property, plant and equipment are capitalised only if the future economic benefits exceed the originally assessed standard of performance. All other expenditure, for example ordinary maintenance and repair costs, is recognised as an expense as incurred. Depreciation is recognised on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated.

Government grants, for example grants received from the State, are recognised in profit or loss in the same period in which the related expenses are recognised. Grants that compensate the Group for the acquisition of property, plant and equipment are deducted from the carrying amount adjusted with the grant received.

Investment properties are properties held by the Group in order to earn rental income or for capital appreciation. Investment properties are measured at cost less accumulated depreciation and impairment losses. Fair values of investment properties are determined based on a valuation carried out by an external property valuator.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10–40 years
Machinery and equipment	10 years
Other tangible assets	3–10 years

The estimated useful lives and residual values are reviewed at each financial year-end, and if they differ substantially from the previous estimates, the depreciation periods are adjusted accordingly. Impairment loss is recognised in profit or loss to the extent the assets carrying value exceeds its recoverable amount.

Gains and losses on the disposals of property, plant and equipment are included in other operating income or expenses.

Financial leasing

Lease contracts of property, plant and equipment, in which Altia assumes substantially all the risks and rewards of ownership are classified as finance leases. Altia leases laptops and copying machines under finance leases. An asset leased through a finance lease is recognised in property, plant and equipment based on its nature and measured at the lower of its fair value and present value of the minimum lease payments at the inception of the lease term. The respective finance lease liabilities, less finance charges, are included in other non-current borrowings.

An asset acquired through a finance lease is depreciated over the shorter of the asset´s useful life and the lease term.

PROPERTY, PLANT AND EQUIPMENT

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and assets under construction	Total
Acquisition cost at 1 January 2017	4.8	116.4	120.9	0.8	2.5	245.4
Additions	-	0.0	0.6	-	7.4	8.1
Disposals	-1.8	-10.4	-0.3	-	-	-12.5
Effect of movement in exchange rates	-0.0	-0.0	-0.2	0.0	-0.0	-0.3
Transfers between items	-	2.2	3.1	-	-5.2	0.0
Acquisition cost at 31 December 2017	3.0	108.2	124.0	0.8	4.7	240.7
Accumulated depreciation and impairment losses at 1 January 2017	-1.8	-84.7	-88.8	-0.1	-	-175.4
Depreciation	-	-3.2	-5.5	-0.0	-	-8.7
Accumulated depreciation on disposals and transfers	1.8	8.4	0.4	-	-	10.5
Effect of movement in exchange rates	0.0	0.0	0.2	-	-	0.2
Accumulated depreciation and impairment losses at 31 December 2017	0.0	-79.5	-93.7	-0.1	-	-173.3
Carrying amount at 1 January 2017	3.0	31.8	32.1	0.6	2.5	70.0
CARRYING AMOUNT AT 31 DECEMBER 2017	**3.0**	**28.7**	**30.3**	**0.6**	**4.7**	**67.4**

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other intangible assets	Prepayments and assets under construction	Total
Acquisition cost at 1 January 2016	4.8	116.4	156.9	0.8	3.0	281.9
Additions	-	0.1	0.8	0.0	4.9	5.8
Disposals	-0.0	-1.7	-40.3	-	-	-42.1
Effect of movement in exchange rates	0.0	0.0	-0.1	0.0	-0.0	-0.1
Transfers between items	-	1.6	3.7	-	-5.4	-0.1
Acquisition cost at 31 December 2016	4.8	116.4	120.9	0.8	2.5	245.4
Accumulated depreciation and impairment losses at 1 January 2016	-1.8	-83.2	-122.2	-0.1	-	-207.3
Depreciation	-	-3.1	-5.8	-0.0	-	-8.9
Accumulated depreciation on disposals and transfers	-	1.6	39.2	-	-	40.8
Effect of movement in exchange rates	-0.0	-0.0	0.1	-	-	0.0
Accumulated depreciation and impairment losses at 31 December 2016	-1.8	-84.7	-88.8	-0.1	-	-175.4
Carrying amount at 1 January 2016	3.0	33.2	34.7	0.7	3.0	74.6
CARRYING AMOUNT AT 31 DECEMBER 2016	**3.0**	**31.8**	**32.1**	**0.6**	**2.5**	**70.0**

Acquisition cost at 1 January 2015	4.8	110.8	156.2	0.8	13.9	286.4
Additions	-	0.7	1.2	0.0	8.3	10.1
Disposals	-0.0	-0.4	-14.2	-	-	-14.7
Effect of movement in exchange rates	-0.0	-0.0	0.0	0.0	-	-0.0
Transfers between items	-	5.4	13.8	-	-19.1	0.1
Acquisition cost at 31 December 2015	4.8	116.4	156.9	0.8	3.0	281.9
Accumulated depreciation and impairment losses at 1 January 2015	-1.8	-80.5	-130.2	-0.1	-	-212.6
Depreciation	-	-3.0	-5.7	-0.0	-	-8.8
Accumulated depreciation on disposals and transfers	-	0.4	13.7	-	-	14.1
Effect of movement in exchange rates	0.0	0.0	0.0	-	-	0.0
Accumulated depreciation and impairment losses at 31 December 2015	-1.8	-83.2	-122.2	-0.1	-	-207.3
Carrying amount at 1 January 2015	3.0	30.2	26.0	0.6	13.9	73.8
CARRYING AMOUNT AT 31 DECEMBER 2015	**3.0**	**33.2**	**34.7**	**0.7**	**3.0**	**74.6**

Land and water areas includes investment properties with book value of EUR 0.0 million in 2017 (2016: EUR 0.0 million, 2015: EUR 0.0 million). Investment properties are measured based on the cost model. At 31 December 2017 the fair value of investment properties was EUR 2.8 million (2016: EUR 2.8 million, 2015: EUR 2.8 million).

FINANCE LEASES

Property, plant and equipment include assets acquired under finance lease as follows:

EUR million	2017	2016	2015
Machinery and equipment			
Acquisition cost at 31 December	1.4	1.5	7.3
Accumulated depreciation at 31 December	-1.1	-1.2	-5.8
CARRYING AMOUNT AT 31 DECEMBER	**0.3**	**0.3**	**1.5**

During the year 2016 Altia reorganised the steam distribution in the Rajamäki plant area by selling its steam distribution network and making new steam delivery agreements. At the same time, Altia was released of its duty to buy the steam power plant at the end of the contract period. The steam power plant was included in the finance leases under machinery and equipment until the disposal.

2.3. INVENTORIES

Inventories

Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices, except cognac products, which are measured at weighted average cost. Fixed production costs are allocated to the cost of own production.

Raw materials, supplies and trading goods are measured at weighted average cost. Semi-finished products are measured at weighted average cost, except semi-finished products produced in Estonia, which are measured at standard prices. Repacked trading goods are measured at standard cost in repacking plant.

The cost of finished products and work in progress includes raw materials, direct labour costs, other direct costs as well as an allocable proportion of variable procurement and production costs and fixed overheads in case of finished products, determined based on normal operating capacity.

Net realisable 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.

INVENTORIES

EUR million	2017	2016	2015
Materials and supplies	50.1	51.6	54.2
Work in progress	12.7	12.3	13.7
Finished goods	13.8	13.9	14.1
Trading goods	17.9	18.4	18.9
Advance payments	0.1	0.2	0.3
TOTAL	**94.5**	**96.3**	**101.2**

Altia recognised write-downs of inventories amounting to EUR 1.8 million in 2017 (2016: EUR 1.7 million, 2015: EUR 2.4 million).

2.4. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade and other receivables

Trade receivables are carried at original invoiced amount less any impairment losses. The assessment of doubtful receivables and need to recognise an impairment loss is based on objective evidence of potential non-recovery of a single asset. Examples of this kind of evidence resulting in impairment include significant financial difficulties of the debtor, likelihood that the debtor will enter bankruptcy or other financial reorganisation as well as the notable and continuous neglect of payment due dates. An impairment loss is recognised immediately in profit or loss. Altia records a provision for all receivables pass due over 120 days.

Sold trade receivables are derecognised from the balance sheet as soon as the receivable is sold and the price has been received. At the time of sale, the Group derecognises the trade receivable as the contractual rights to these cash flows expire and all the related substantial risks and rewards have been transferred outside the Group. The costs related to the sold receivables are recognised in Other finance expenses.

TRADE AND OTHER RECEIVABLES

EUR million	2017	2016	2015
Trade receivables	48.1	58.5	53.3
Accrued income	1.8	2.2	2.2
Receivables on derivative instruments	1.4	0.8	0.5
Other receivables	2.6	2.4	3.2
TOTAL	**53.9**	**63.8**	**59.1**

At the end of the reporting period 2017 the sold trade receivables amounted to EUR 83.6 million (2016: EUR 85.6 million, 2015: EUR 91.4 million). Trade receivables from associated companies and joint operations are presented in Note 6.3.

AGEING ANALYSIS OF TRADE RECEIVABLES

EUR million	2017	2016	2015
Trade receivables not past due	44.7	53.8	47.6
Trade receivables past due 1-90 days	3.5	4.5	5.2
Trade receivables past due over 90 days	0.2	0.7	1.6
Impairment losses	-0.3	-0.6	-1.2
TOTAL	**48.1**	**58.5**	**53.3**

The realised impairment losses recognised on trade receivables during the year 2017 amounted to EUR 0.2 million (2016: EUR 0.1 million, 2015: EUR 0.1 million).

2.5. EMPLOYEE BENEFIT OBLIGATIONS

Pension plans

Pension plans are classified as either defined contribution plans or defined benefit plans. Contributions to defined contribution pension plans are recognised through profit or loss in the periods during which the services are rendered by the employees. The Group has no legal or constructive obligation to make additional payments if the party receiving the payments is not able to perform the pension benefits in question. All other plans that do not meet these conditions are classified as defined benefit plans.

Defined benefit plans are financed with payments to pension insurance companies. The obligation in respect of defined benefit pension plans is calculated using the projected unit credit method separately for each plan. Pension expenses are recognised in periods during which services are rendered by employees participating the plan according to actuarial calculations prepared by qualified actuaries. The amount recognised as a defined benefit liability or asset comprises the net total of the following items: the present value of the defined benefit obligation and the fair value of the plan assets. The discount rate used to determine the present value of the defined benefit obligation is the yield on high quality corporate or government bonds with a similar maturity to that of the pension obligation.

Current service cost and the net interest on net defined benefit liability is recognised in profit or loss. The pension expense is disclosed under the employee benefit expenses and the net interest is disclosed under financial items. Items arising from the remeasurement of net defined benefit liability are recognised in other comprehensive income during the period in which they occur.

Past service cost is expensed at the earlier of the following dates: when the plan amendment or curtailment occurs or when the entity recognises related restructuring costs or termination benefits.

Critical estimates and management judgements – Defined benefit pension obligations:

Measurement of defined benefit pension obligation and plan assets is based on the actuarial assumptions made by management. These include e.g. the discount rate used in calculating the present value of the obligation, future salary and pension level, expected return on plan assets and the turnover of personnel included in the plan. Changes in the actuarial assumptions, as well as differences between expected and realised values result in actuarial gains and losses.

Group's pension arrangements

The Group operates various pension plans in accordance with local conditions and practices in different countries. In the Finnish companies, statutory pension obligations (TyEL) are arranged through insurance companies, when the TyEL plan is a defined contribution plan. The defined contribution plans are applied also in other countries and the foreign subsidiaries manage their pension plans in accordance with local legislation and established practice.

The Group has defined benefit pension plans for supplementary pension in Norway and France. In Finland Altia switched from the voluntary defined benefit pension to a defined contribution plan in 2016.

In defined benefit pension plans, the amount of the pension benefit at retirement is calculated on the basis of salary, years of service and life expectancy. The Norwegian and French pension plans cover only few employees, thus the related pension liabilities are not material for the Group. The Finnish supplementary pensions, which was changed in the end of 2016, mainly concern pensions already begun and paid-up policies, for which the company's obligation was mainly limited to costs related to the increases in index.

Change in Altia's defined benefit pension plan in 2016

Altia Plc has had a defined benefit pension plan for supplementary pensions continuing the pension coverage provided by the Alko Pension Fund, which was closed at the beginning of 1994. As there were significant amendments to the statutory employee pension coverage, Altia and employees' representatives reviewed the supplementary pension coverage together and decided to propose to the Board of Directors of Altia that supplementary pensions earned by 1 January 2017 be fixed and the insurance changed into a defined contribution plan. At the same time, it was agreed that Altia will no longer fund future annual index increases to pensions. Until the change, the supplementary pensions had followed the employee pension index so that Altia had annually paid the insurance contribution required for the increases. In 2015 and 2016, the increases in the employee pension have remained relatively low (0% in 2016 and 0.39% in 2015). Altia's Board of Directors decided that instead of the increase based on the employee pension index, the supplementary pensions will be increased by 4.5% on 1 January 2017, and after this lump-sum compensation the pensions will be increased in accordance with the increase decision made annually by the insurance company. Following the arrangement, Altia no longer has any defined pension obligations based on Finnish supplementary pensions under IFRS standards (IAS 19). Consequently, Altia's employee benefit expenses for the year ended 31 December 2016 includes a gain of EUR 16.5 million on settlement of defined benefit obligations. The cash flow effect from the arrangement amounted to EUR -4.1 million in 2016. The effect on result is presented in Note 1.5 Employee benefit expenses.

DEFINED BENEFIT PENSION LIABILITY IN THE BALANCE SHEET

EUR million	2017	2016	2015
Present value of unfunded obligations	1.2	1.6	1.4
Present value of funded obligations	-	-	93.9
Fair value of plan assets	-	-	-74.0
Taxes, Norway	0.2	0.2	0.2
NET PENSION LIABILITY IN THE BALANCE SHEET	**1.3**	**1.8**	**21.6**

DEFINED BENEFIT PENSION EXPENSE IN PROFIT OR LOSS

EUR million	2017	2016	2015
Settlement gain of defined benefit obligation	-	16.5	-
Current service cost	0.0	-0.3	-0.4
Net interest	-0.0	-0.5	-0.5
Tax effect, Norway	-0.0	-0.0	-0.0
PENSION EXPENSES RECOGNIZED IN PROFIT OR LOSS, PROFIT (+), LOSS (-)	**-0.0**	**15.7**	**-0.8**

ITEMS OF OTHER COMPREHENSIVE INCOME

EUR million	2017	2016	2015
Remeasurements			
Return on plan assets, excluding interest income and interest expense	0.0	10.5	-9.4
Gain (loss) related to changes in demographic assumptions	-	-	2.1
Gain (loss) related to changes in financial assumptions	-0.0	-4.1	8.4
Experience adjustment - gain (loss)	-0.0	-6.9	4.6
Tax effect, Norway	-0.0	0.0	0.1
TOTAL COMPREHENSIVE INCOME	**-0.0**	**-0.4**	**5.8**

CHANGES IN PENSION OBLIGATION AND FAIR VALUE OF PLAN ASSETS IN THE BALANCE SHEET

EUR million	2017	2016	2015
Present value of the obligation:			
Obligation at 1 January	1.8	95.6	114.3
Service cost	0.0	0.3	0.4
Interest cost	0.0	2.0	1.9
Benefits paid	-0.3	-5.9	-5.7
Exchange differences	-0.3	-0.2	-0.4
Remeasurement gains (-) and losses (+)	-0.0	11.3	-15.1
Settlement	-	-101.5	-
Tax effect, Norway	0.2	0.2	0.2
OBLIGATION AT 31 DECEMBER	**1.3**	**1.8**	**95.6**

EUR million	2017	2016	2015
Fair value of plan assets:			
Fair value of plan assets at 1 January	-	74.0	87.0
Interest income	-	1.5	1.4
Contributions paid by employer to the plan	-0.1	-5.9	0.5
Return on plan assets, excluding items recognized in interest expense	-	10.5	-9.4
Benefits paid	0.1	4.9	-5.6
Settlement	-	-85.0	-
FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER	**-**	**-**	**74.0**

SIGNIFICANT ACTUARIAL ASSUMPTIONS

	2017	2016	2015
Finland			
Discount rate	-	1.8%	2.1%
Future pension growth	-	1.5%	1.8%
Future salary growth	-	2.8%	2.8%
Insurance companies' reimbursement assumption	-	0.0%	0.0%
Norway			
Discount rate	1.9%	2.1%	1.5%
Future pension growth	2.0%	2.0%	2.0%

The weighted average duration of the obligation is 13 years (2016: 13 years, 2015: 14 years.)

SENSITIVITY ANALYSIS, IMPACT ON DEFINED BENEFIT OBLIGATION AND PLAN ASSETS

2017 Assumption	Change in assumption	Change in obligation, EUR million	Change in obligation, %
Discount rate	+0.5%	-0.1	-5.4%
Growth rate of pensions	+0.5%	0.1	5.8%
Growth rate of salaries	+0.5%	0.0	0.0%
Change in mortality rate	1 year in life expectancy	0.1	5.0%

2016 Assumption	Change in assumption	Change in obligation, EUR million	Change in obligation, %
Discount rate	+0.5%	-0.1	-5.4%
Growth rate of pensions	+0.5%	0.1	5.9%
Growth rate of salaries	+0.5%	0.0	0.0%
Change in mortality rate	1 year in life expectancy	0.1	4.7%

2015 Assumption	Change in assumption	Change in obligation, EUR million	Change in plan assets EUR million	Change in obligation, %	Change in plan assets, %
Discount rate	+0.5%	-5.1	-4.2	-5.4%	-5.8%
Growth rate of pensions	+0.5%	5.6	0.0	6.0%	0.0%
Growth rate of salaries	+0.5%	0.2	0.0	0.3%	0.0%
Change in mortality rate	1 year in life expectancy	3.7	2.5	4.0%	3.5%
Insurance companies' reimbursement	+0.5%	0.0	4.0	0.0%	5.5%

2.6. TRADE AND OTHER PAYABLES

EUR million	2017	2016	2015
Current			
Trade payables	29.2	28.0	28.9
Accruals for wages and salaries and social security contributions	3.6	3.5	4.1
Interest liabilities	0.1	0.2	0.3
Other accrued expenses	18.0	13.4	12.7
Derivative liabilities	1.5	2.2	2.6
Excise tax	50.1	57.8	58.4
VAT liability	26.9	28.6	27.9
Other liabilities	7.9	8.9	8.6
TOTAL	**137.4**	**142.7**	**143.5**

2.7. PROVISIONS

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. The amount recognised as provision is the management's best estimate of the costs required to settle the existing obligation at the end of the reporting period. If part of the obligation may potentially be compensated by a third party, the compensation is recognised as a separate asset when it is virtually certain that the compensation will be received.

A provision for restructuring is recognised when a detailed restructuring plan has been prepared, and the implementation of the plan has either been commenced or the plan has been announced to those who are affected.

Restructuring provisions included mainly costs for various projects to streamline operations and consists of employee termination benefits.

Restoration provisions related to obligation to restore former Altia headquarters in Helsinki to its original state and remaining rental expenses of the unused premises.

PROVISIONS

EUR million	Restructuring	Restoration	Total
Provision at 31 December 2016	0.7	0.6	1.3
Provisions made during the year	-	-	-
Provisions used during the year	-0.7	-0.6	-1.3
PROVISION AT 31 DECEMBER 2017	**-**	**-**	**-**
Currrent	-	-	-
Non-Current	-	-	-

EUR million	Restructuring	Restoration	Total
Provision at 31 December 2015	1.1	2.3	3.4
Provisions made during the year	0.5	-	0.5
Provisions used during the year	-0.9	-1.7	-2.6
PROVISION AT 31 DECEMBER 2016	**0.7**	**0.6**	**1.3**
Currrent	0.7	0.6	1.3
Non-Current	-	-	-

EUR million	Restructuring	Restoration	Total
Provision at 31 December 2014	2.0	1.3	3.4
Provisions made during the year	-	1.0	1.0
Provisions used during the year	-0.9	-	-0.9
PROVISION AT 31 DECEMBER 2015	**1.1**	**2.3**	**3.4**
Currrent	0.4	1.7	2.1
Non-Current	0.7	0.6	1.3

3. Financial items and capital structure

3.1. FINANCE INCOME AND EXPENSES

FINANCE INCOME

EUR million	2017	2016	2015
Interest income			
Forward points on FX-forwards	0.2	0.1	0.1
Loans, receivables and cash and cash equivalents	0.1	0.1	0.2
Derivatives under hedge accounting	-	-	0.0
Total interest income	**0.3**	**0.3**	**0.3**
Foreign exchange gains			
Foreign exchange gains on FX-derivatives	1.7	0.8	0.1
Foreign exchange gains on I/C loans and cash pool accounts	2.4	0.2	0.3
Total foreign exchange gains	**4.0**	**0.9**	**0.4**
Dividend income			
Available-for-sale financial assets	0.2	0.1	0.1
Total dividend income	**0.2**	**0.1**	**0.1**
TOTAL FINANCE INCOME	**4.5**	**1.3**	**0.8**

Foreign exchange differences arising from trade receivables and trade payables amounting to EUR -0.1 million (2016: EUR -0.1 million, 2015: EUR -0.0 million) and from currency derivatives amounting to EUR 0.1 million (2016: EUR 0.8 million 2015: EUR 0.7 million) are included in operating result.

FINANCE EXPENSES

EUR million	2017	2016	2015
Interest expenses			
Forward points on FX-forwards	0.1	0.1	0.1
Financial liabilities at amortised cost	1.1	1.1	1.6
Derivatives under hedge accounting (Interest rate risk)	0.4	0.4	0.7
Other interest expenses, pension liability	0.0	0.5	0.5
Total interest expenses	**1.6**	**2.1**	**2.8**
Foreign exchange losses			
Foreign exchange losses on FX-derivatives	3.2	0.4	0.1
Foreign exchange losses on I/C loans and cash pool accounts	1.0	0.5	0.2
Total foreign exchange losses	**4.1**	**0.9**	**0.2**
Other finance expenses			
Other financial expenses	0.7	0.6	0.7
Ineffective portion of commodity derivatives under hedge accounting	-0.0	-	0.2
Other commodity derivatives	-	-0.1	-0.3
Total other finance expenses	**0.7**	**0.5**	**0.6**
TOTAL FINANCE EXPENSES	**6.4**	**3.4**	**3.6**

Interest expenses include finance lease related interest expenses amounting to EUR 0.0 million in 2017 (2016: EUR 0.1 million, 2015: EUR 0.1 million).

3.2. FINANCIAL ASSETS

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Classification is made upon initial recognition based on the purpose of use of the asset. The basis of classification is re-assessed at each reporting date. Fair values of the financial assets and their classification are described in Note 3.4.

All purchases and sales of financial instruments are recognised on the trade date, which is the date when the Group commits to purchase or sell a financial instrument. Financial assets are recognised in the balance sheet at original cost which equals their fair value at the acquisition date. If the asset in question is not measured at fair value through profit or loss, transaction costs are included in the original cost of the financial asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or the Group transfers all the substantial risks and rewards related to the financial asset outside the Group. Financial assets are included in non-current items of the balance sheet when their maturity is over 12 months, excluding derivative instruments, which are always recognised in the current items of the balance sheet.

3.2.1. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consisting of unquoted shares amounted to EUR 1.4 million (2016: EUR 0.8 million, 2015: EUR 0.8 million). Altia is a minority shareholder in Chemigate Oy and has revalued its investment at a fair value of EUR 0.8 million at 31 December 2017 and the increase in fair value EUR 0.6 million has been recorded to other comprehensive income.

3.2.2. OTHER RECEIVABLES

Other receivables consists of deferred purchase consideration receivable from the sale of Svend-borg real-estate amounting to EUR 1.0 million in 2017. The capital loan receivables amounted to EUR 0.3 million at 31 December 2016 (2015: EUR 0.5 million) and have been repaid in 2017.

3.2.3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, cash in bank as well as other highly liquid investments with maturities of three months or less on the acquisition date.

EUR million	2017	2016	2015
Cash at hand and in bank	52.4	68.0	73.9
Cash equivalents	-	-	2.4
TOTAL	**52.4**	**68.0**	**76.3**

3.3. FINANCIAL LIABILITIES

Financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Financial liabilities are initially measured at fair value and recognised net of transaction costs, with the exception of items measured at fair value through profit or loss. Fair values of the financial liabilities and their classification in more detail is described in Note 3.4.

A financial liability (or a part of it) is not derecognised until the obligation specified in the contract is discharged or cancelled or expires. A financial liability is classified as current, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the end of the reporting period, with the exception of derivative instruments that are always recognised in current items in the balance sheet.

3.3.1 BORROWINGS

EUR million	2017	2016	2015
Non-current			
Loans from financial institutions	74.7	64.8	87.2
Loans from pension institutions	14.3	-	-
Finance lease liabilities	0.2	0.1	1.2
TOTAL	**89.1**	**64.9**	**88.4**
Current			
Loans from financial institutions	10.0	7.5	7.5
Loans from pension institutions	0.8	-	-
Finance lease liabilities	0.2	0.3	0.8
TOTAL	**11.0**	**7.8**	**8.3**

Interest-bearing non-current loans from financial and pension institutions are measured at amortised cost using the effective interest method.

All of the Group's non-current and current loans from financial and pension institutions were nominated in Euros as at 31 December 2017, 31 December 2016 and 31 December 2015.

The weighted average effective interest rate (p.a.) of the Group's loans from financial and pension institutions as at 31 December 2017 was 1.6% (2016: 1.7%, 2015: 1.5%).

The weighted average interest rate (p.a.) of the Group's finance lease liabilities as at 31 December 2017 was 1.5% (2016: 1.6%, 2015: 2.6%).

Altia refinanced its loan portfolio in December 2017 and all existing loans were early repaid. The unamortised costs related to repaid loans were recognised in financial expenses amounting EUR 0.8 million.

On December 2017, the Company entered into an unsecured EUR 75 million term loan and EUR 60 million revolving credit facilities agreement with three banks. (Senior facilities agreement). Altia drew down a EUR 20 million term loan facility, a EUR 55 million term loan facility and EUR 10 million under the revolving credit facility of the Senior Facilities Agreement .

The EUR 20 million term loan facility terminates on January 2022, and is repaid in yearly instalments of EUR 5 million starting on January 2019. The EUR 55 million term loan facility terminates on January 2023 unless it is extended by optional one year, and is repaid in full on its termination date. The EUR 60 million revolving credit facility terminates on January 2023 unless it is extended by optional one year.

Interest on amounts drawn under the term loan facilities and the revolving credit facility is determined by reference to EURIBOR and are defined as the sum of an applicable margin and EURIBOR. The margin for each of the facilities depends on the gearing covenant.

The Senior Facilities Agreement contains a financing covenant relating to gearing, according to which the ratio of net-interest bearing debt to consolidated equity of the Company shall not exceed 120 per cent. Compliance with the gearing covenant is monitored quarterly. The Senior Facilities Agreement contains other customary covenants.

On December 2017, the Company entered into a EUR 15 million premium loan agreement (TYEL pension loan). The premium loan has a maturity of ten years and its principal is amortised biannually beginning on July 2018. Interest on the loan amount is also paid biannually and is defined as the sum of a margin and the 10-year TyEL reference rate from time to time. The premium loan is secured by a guarantee as for one's own debt issued by Garantia Insurance Company Ltd on December 2017.

3.3.2. NET DEBT

Movements in Net debt the year ended 31 December 2017

EUR million	Cash and cash equivalents	Loans from financial institutions (non current)	Loans from financial institutions (current)	Finance lease liabilities (non-current)	Finance lease liabilities (current)	Total
Net debt as at 31.12.2016	68.0	64.8	7.5	0.1	0.3	4.7
Cash flows	-13.2	24.3	3.3	-	-0.3	40.4
Translation differences	-2.5	-	-	0.0	-	2.5
Other non-cash movement	-	-0.1	-	0.0	0.2	0.1
TOTAL	**52.4**	**89.0**	**10.8**	**0.2**	**0.2**	**47.7**

3.4. CLASSIFICATION AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

Financial assets recognised at fair value through profit or loss

This category includes financial assets held for trading purposes or otherwise designated as financial assets recognised at fair value through profit or loss by Altia Group. Derivative instruments held for hedging purposes, but not qualifying for the criteria of hedge accounting, are classified in this category. Items in this category are initially recognised at fair value and subsequently measured at the fair value of each reporting date, which is the market bid price at the end of the reporting period determined based on public price quotations in active markets. Realised and unrealised gains and losses arising from changes in fair values are recognised in profit or loss in financial items in the period in which they are incurred if they relate to hedging of financial items. If derivative instruments relate to hedging of commercial items (foreign currency denominated purchases and sales), the realised and unrealised gains and losses are recognised in profit or loss and included in operating result.

Loans and other receivables

Loans and receivables arise when money, goods or services are delivered to a debtor, and they are included in current or non-current financial assets in accordance with their maturity. In Altia, non-current receivables include loan receivables and other receivables with the maturity of over one year. Current receivables include trade receivables as well as cash and cash equivalents presented under current financial assets. Receivables are measured at amortised cost when the related payments are fixed or determinable and the instruments are not quoted in financial markets. The exchange rate differences of intra-group foreign currency denominated receivables are presented within financial items in the foreign exchange differences of the Loans and receivables category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are either designated in this category or not classified in any other category of financial assets. These are included in non-current assets, unless they are intended to be held less than 12 months from the end of the reporting period, in which case they are included in current assets.

Available-for-sale financial assets consist of unquoted shares. Unquoted shares are measured at fair value based on market approach valuation techniques using information from market transactions involving comparable assets.

The Group estimates at each reporting date whether there is objective evidence of impairment of an available-for-sale financial asset. Impairment losses for which there is objective evidence are immediately recognised in profit or loss. For example, a significant or long-term decrease in fair value below the original cost of an asset can be regarded as objective evidence of impairment. The Group determined that none of the investments in available-for-sale financial assets have impaired in 2017, 2016 or 2015.

Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives held for hedging purposes but not qualifying for hedge accounting. Financial liabilities in this category are measured at fair value, which is determined based on price quotations in active markets at the reporting date. Realised and unrealised gains or losses arising from the changes in fair values are recognised through profit or loss in the financial items as incurred.

Financial liabilities at amortised cost

This category includes the Group's external loans from financial institutions, loans from pension institutions, commercial paper loans as well as trade payables. These financial liabilities are measured at amortised cost using the effective interest method. When loans are paid off or refinanced, the related unamortised costs are recognised in finance expenses. Group overdrafts in use are included in current borrowings. In addition, Altia has a revolving credit facility and the related fee is amortised on a straight-line basis in other finance expenses during the term of the facility.

The exchange rate differences arising from foreign currency denominated loans from financial institutions are disclosed under financial items. The exchange rate differences of intra-group foreign currency denominated loans are presented within financial items in the foreign exchange differences of the category financial liabilities at amortised cost.

The fair values of loans from financial institutions and commercial paper loans are determined based on future cash flows discounted with market interest rate at the reporting date adjusted with Altia's credit risk premium. At the reporting date, the carrying amounts of the loans are considered to equal their fair values because of the exceptionally low level of market interest rates. The fair values of finance lease liabilities are based on discounted future cash flows. The discount rate is the corresponding interest rate on similar lease contracts.

Derivative instruments

Derivatives are included in financial assets and liabilities at fair value through profit or loss when they do not meet the criteria of hedge accounting pursuant to IAS 39. These derivatives are recognised at fair value on the trade date and they are subsequently measured at fair value at the reporting date. Derivative instruments and hedge accounting are described in Note 3.5.

The fair values of derivatives equal the amount that the Group would have to pay or it would receive from the termination of the derivative contract at the reporting date. The fair values of forward exchange contracts are determined by using the market prices at the reporting date. The fair values of interest rate derivatives are determined by discounting the related future cash flows. The valuation of commodity derivatives is determined based on the fair values received from the financial markets.

The following table presents the fair values and the carrying amounts in the consolidated balance sheet for each financial instrument by classes:

2017 EUR million	Note	Derivatives, hedge accounting	Financial assets/liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortized cost	Carrying amounts of items in the balance sheet	Fair value	Level
Financial assets									
Non-current financial assets									
Receivables from interests in joint operations		-	-	7.6	-	-	7.6	7.6	
Unquoted shares	3.2.1.	-	-	-	1.4	-	1.4	1.4	3
Loan receivables	3.2.2.	-	-	1.0	-	-	1.0	1.0	
Current financial assets									
Trade and other receivables	2.4.	-	-	49.7	-	-	49.7	49.7	
Trade and other receivables/Derivative instruments									
Forward exchange contracts	2.4.	0.8	0.3	-	-	-	1.1	1.1	2
Commodity derivatives	2.4.	0.3	-	-	-	-	0.3	0.3	2
Cash and cash equivalents	3.2.3.	-	-	52.4	-	-	52.4	52.4	
TOTAL		**1.0**	**0.3**	**110.6**	**1.4**	**-**	**113.4**	**113.4**	
Financial liabilities									
Non-current financial liabilities									
Borrowings	3.3.1.	-	-	-	-	89.1	89.1	89.1	2
Current financial liabilities									
Borrowings	3.3.1.	-	-	-	-	11.0	11.0	11.0	2
Trade and other payables	2.6.	-	-	-	-	29.3	29.3	29.3	
Trade and other payables/Derivative instruments									
Interest rate derivatives	2.6.	1.4	-	-	-	-	1.4	1.4	2
Forward exchange contracts	2.6.	0.1	0.0	-	-	-	0.1	0.1	2
TOTAL		**1.5**	**0.0**	**-**	**-**	**129.5**	**131.0**	**131.0**	

2016 EUR million	Note	Derivatives, hedge accounting	Financial assets/liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortized cost	Carrying amounts of items in the balance sheet	Fair value	Level
Financial assets									
Non-current financial assets									
Receivables from interests in joint operations		-	-	7.6	-	-	7.6	7.6	
Unquoted shares	3.2.1.	-	-	-	0.8	-	0.8	0.8	3
Loan receivables	3.2.2.	-	-	0.3	-	-	0.3	0.3	
Current financial assets									
Trade and other receivables	2.4.	-	-	59.7	-	-	59.7	59.7	
Trade and other receivables/Derivative instruments									
Forward exchange contracts	2.4.	0.3	0.4	-	-	-	0.7	0.7	2
Commodity derivatives	2.4.	0.0	-	-	-	-	0.0	0.0	
Cash and cash equivalents	3.2.3.	-	-	68.0	-	-	68.0	68.0	
TOTAL		**0.3**	**0.4**	**135.5**	**0.8**	**-**	**137.1**	**137.1**	
Financial liabilities									
Non-current financial liabilities									
Borrowings	3.3.1.	-	-	-	-	64.9	64.9	64.9	2
Current financial liabilities									
Borrowings	3.3.1.	-	-	-	-	7.8	7.8	7.8	2
Trade and other payables	2.6.	-	-	-	-	28.7	28.7	28.7	
Trade and other payables/Derivative instruments									
Interest rate derivatives	2.6.	1.9	-	-	-	-	1.9	1.9	2
Forward exchange contracts	2.6.	0.3	0.0	-	-	-	0.4	0.4	2
TOTAL		**2.2**	**0.0**	**-**	**-**	**101.5**	**103.7**	**103.7**	

2015 EUR million	Note	Derivatives, hedge accounting	Financial assets/liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortized cost	Carrying amounts of items in the balance sheet	Fair value	Level
Financial assets									
Non-current financial assets									
Receivables from interests in joint operations		-	-	7.6	-	-	7.6	7.6	
Unquoted shares	3.2.1.	-	-	-	0.8	-	0.8	0.8	3
Loan receivables	3.2.2.	-	-	0.5	-	-	0.5	0.5	
Current financial assets									
Trade and other receivables	2.4.	-	-	55.1	-	-	55.1	55.1	
Derivative instruments/Forward exchange contracts		0.4	0.0	-	-	-	0.5	0.5	2
Cash and cash equivalents	3.2.3.	-	-	76.3	-	-	76.3	76.3	
TOTAL		**0.4**	**0.0**	**139.3**	**0.8**	**-**	**140.6**	**140.6**	
Financial liabilities									
Non-current financial liabilities									
Borrowings	3.3.1.	-	-	-	-	88.4	88.4	88.4	2
Current financial liabilities									
Borrowings	3.3.1.	-	-	-	-	8.3	8.3	8.3	2
Trade and other payables	2.6.	-	-	-	-	29.9	29.9	29.9	
Trade and other payables/derivative instruments									
Interest rate derivatives	2.6.	1.5	-	-	-	-	1.5	1.5	2
Forward exchange contracts	2.6.	0.2	0.0	-	-	-	0.3	0.3	
Commodity derivatives	2.6.	0.6	0.2	-	-	-	0.8	0.8	2
TOTAL		**2.4**	**0.2**	**-**	**-**	**126.6**	**129.2**	**129.2**	

Due to short maturity fair value of trade receivables and other short-term receivables and liabilities equal to their value in the balance sheet.

The table above presents the classification of financial instruments. The levels 1-3 of fair value hierarchy reflect the significance of inputs used in determining the fair values. In level one, fair values are based on public quotations of identical financial instruments. In level two, the inputs used in determining the fair values are based on quoted market rates and prices observable for the asset or liability in question directly (i.e. price) or indirectly on discounted future cash flows. Fair values of other financial assets and liabilities in level two reflect their carrying value. In level three, the fair values of assets and liabilities are based on inputs that are not based on observable market data for all significant variables, and instead are, to a significant extent, based on management estimates and their use in generally accepted valuation techniques. The reported fair value level is based on the lowest level of input information that is significant in determining the fair value.

3.5. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

When the Group applies IAS 39 hedge accounting to foreign currency, interest rate and electricity derivatives, the effective portion of the fair value change is recognised in other comprehensive income and presented within equity in the hedge reserve.

When hedge accounting is applied

In Altia, cash flow hedging is applied to part of the interest rate, foreign currency and electricity derivatives based on case-by-case assessment. In cash flow hedging, the Group is hedging against changes in cash flows related to a specific asset or liability recognised in the balance sheet or to a highly probable future business transaction. Hedge accounting is a method of accounting with the purpose to allocate one or several hedging instruments so that their fair value changes offset in full or partly the changes in fair value or cash flow arising from the hedged risk in profit or loss during the period, for which the hedge is designated. In the beginning of the hedging arrangement, Altia documents the relationship between each hedging instrument and hedged item, as well as the objectives of risk management and the strategy in engaging in hedging. The effectiveness of hedging instruments is tested both prospectively and retrospectively. Effectiveness means the ability of a hedging instrument to offset the changes in the fair value of the hedged item or changes in the cash flows of the hedged transaction attributable to the hedged risk. The hedging relationship is regarded to be highly effective if the realised results of the hedging instrument offset the changes in the cash flows of the hedged item by 80–125 percent. Hedge accounting is discontinued when the criteria for hedge accounting is no longer met.

The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied, are presented in congruence with the hedged item. The effective portion of the unrealised changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in other comprehensive income and presented in the hedge reserve in equity. The ineffective portion is immediately recognised in profit or loss. The cumulative gain or loss in equity on derivative instruments related to commercial items is recognised in profit or loss as an adjustment to purchases or sales simultaneously with the hedged item in the period in which the hedged item affects profit or loss. Realised gain or loss on electricity derivatives is included in operating result in electricity procurement expenses. When a hedging instrument designated as a cash flow hedge expires, is sold or no longer meets the criteria of hedge accounting, the gain or loss accumulated in equity is recognised through profit or loss.

When hedge accounting is not applied

The accounting for gains and losses arising from fair value measurement is dependent on the purpose of use of the derivative. In Altia, the changes in the fair values of derivative instruments are immediately recognised in profit or loss in operating result if the derivative in question is related to hedging of commercial cash flows (purchases and sales) and hedge accounting is not applied. The fair value changes of other derivative instruments are immediately recognised in profit or loss in financial items if hedge accounting is not applied. Derivatives, to which hedge accounting is not applied, are acquired to minimise the profit and/or cash flow effects related to business operations or financing.

Changes in the premium on forward contracts and time value of options are always recognised through profit or loss. Thus hedge accounting is not applied to these items, even if hedge accounting is applied to the derivative instrument in question.

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR million	2017	2016	2015
Derivative instruments designated for cash flow hedging			
Interest rate derivatives	20.0	20.0	20.0
Forward exchange contracts	30.3	26.7	30.6
Commodity derivatives, electricity	2.5	3.0	3.6
	0.1TWh	0.1TWh	0.1TWh
Derivative instruments, non-hedge accounting			
Forward exchange contracts	24.7*	52.9	8.4

*Total EUR 21.3 million in nominal value relates to hedging internal deposits in currency to parent company amounting the same. These deposits are made in order to mitigate the effects of the banks' negative deposit rates.

Positive and negative fair values of unrealised derivatives and their net amount are presented below. The master netting agreements in respect of derivatives do not meet the criteria for offsetting in the balance sheet owing to legally enforceable right not existing currently.

NET POSITIONS

EUR million	2017	2016	2015
Derivative assets:			
Fair value, gross	1.1	0.7	0.5
Fair value, under netting agreements	-0.2	-0.2	-0.1
Fair value, net	1.0	0.6	0.4
Derivative liabilities:			
Fair value, gross	1.5	2.2	1.8
Fair value, under netting agreements	-0.2	-0.2	-0.1
Fair value, net	1.3	2.1	1.7

3.6. EQUITY

Share capital

Altia Plc's share capital, paid in its entirety and registered in the trade register, was EUR 60,480,378.36 at the end of 2017, 2016 and 2015. At 31 December 2016, the Company had two share series, series A and series L. The Board of Directors of the Company has on 13 December 2017 resolved to cancel all 25,003 series L shares which were held in treasury by the Company and upon registration of such cancellation the Company had no series L shares at 31 December 2017. On 15 December 2017, the sole shareholder at the Company resolved to combine the Company's series A and L shares to single share series and incorporate the shares in the book-entry securities system and amend the company's Articles of Association accordingly on 19 January 2018. At the end of the financial period 2017, 2016 and 2015 there were 35,960,000 A series shares. At the end of financial period 2016 and 2015 there were 25,003 L series shares.

Fair value reserve

The fair value reserve represents the change in the fair value of available-for sale financial assets.

Hedge reserve

The hedge reserve includes the fair value changes of derivative instruments used for cash flow hedging for effective hedges.

Translation differences

Translation differences comprise all foreign exchange differences arising from the translation of the foreign subsidiaries' financial statements.The Group's accumulated translation differences amounted to negative EUR 16.0 million at 31 December 2017 (31.12.2016: negative EUR 12.3 million, 31.12.2015: negative EUR 9.6 million).

Treasury shares

The amounts paid for the redeemed shares have been recorded as a reduction of retained earnings.

Earnings per share

Basic earnings per share is calculated by dividing the result for the period attributable to owners of the parent company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share has been calculated on the same basis as basic earnings per share except that it reflects the impact of any potential commitments the Group has to issue shares in the future. Altia has not issued any dilutive instruments during the periods presented.

	2017	2016	2015
Result attributable to the shareholders of the parent company, EUR million	18.3	36.1	18.1
Weighted average number of shares outstanding (1,000 pcs)	35,960	35,960	35,960
Basic and diluted earnings per share (EUR)	0.51	1.00	0.50

Dividend

The Board of Directors proposes to the Annual General Meeting that no dividend is paid for the financial year 2017. The Annual General Meeting held on 21 March 2017 set a dividend of EUR 0.29 per share for the year 2016, totalling to EUR 10,428,400. Extra dividend of EUR 1.67 per share for the year 2016, totaling EUR 60,053,200 was paid on 18 December 2017.

The Annual General Meeting held on 29 March 2016 set a dividend of EUR 0.29 per share for the year 2015, totalling to EUR 10,428,400.

ALTIA PLC'S DISTRIBUTABLE FUNDS

EUR million	31 Dec 2017	31 Dec 2016	31 Dec 2015
Retained earnings	100.7	101.0	92.6
Distribution of dividends	-70.5	-10.4	-
Profit for the period	26.5	10.1	8.4
TOTAL DISTRIBUTABLE FUNDS	**56.8**	**100.7**	**101.0**

Gearing
34.9%

4. Financial and capital risk

4.1. FINANCIAL RISK MANAGEMENT

Financial risk management principles

The aim of Altia's financial risk management is to ensure the Group's financial stability and availability of sufficient financing options in different market situations. In addition, the aim is to support the business operations to identify business-related financial risks and their management, and to hedge against material financial risks.

The Group is exposed to various market risks. Changes in these risks affect the company's assets, liabilities and anticipated transactions. The risks are caused by changes in interest rates, currencies and commodity market prices. Selected derivative instruments can be used to manage the risks resulting from these market risks. Altia mainly hedges against risks that impact the Group's cash flow, and, if deemed appropriate, also certain foreign currency denominated items in the balance sheet. Derivatives are solely used to hedging against the above-mentioned risks. The principles of IAS 39 hedge accounting are applied to certain interest rate, foreign exchange as well as electricity derivatives. Financial risk management is executed as part of the Group's risk management, according to the Risk Management Principles approved by the Board of Directors. Altia's principles aiming towards financial, credit and operational continuity form the basis for financial risk management.

Risk management process

Special process features related to financing are described below in connection with the descriptions of market, liquidity and credit risks. The financial risk exposure is regularly reported to the Audit Committee and Altia's Board of Directors. The most significant principle decisions concerning risk management are made by the company's Board of Directors.

As part of the financial risk management principles, Altia's Board of Directors has approved a list of financial instruments, in which the accepted instruments, their purpose and the person who decides on their use have been specified for different types of financial risks.

Financial risk management organisation

Financial matters are reported regularly to the Group management. On a case-by-case basis, the Board of Directors processes all substantial financial matters, such as the Group's internal and external loan arrangements.

Tasks and responsibilities regarding Altia's financial operations and financial risk management are described in the financial risk management principles. The Group Treasury is responsible for securing financing, identifying risks and, if required, executing hedging transactions with external counterparties. The business units and subsidiaries are responsible for managing the risks associated with their own operations and forecasting cash flows.

Risk concentrations

Altia carefully analyses the financial risks and risk concentrations related to its operations. Risk concentrations identified as a result of this assessment are described in connection with the descriptions of market and credit risks.

Market risk

Altia defines market risk as a risk where the fair values of financial instruments or future cash flows fluctuate as a result of changes in market prices. The most significant market risks for the Group are currency risk, interest rate risk and price risks for barley and electricity.

1. Currency risk

Altia is exposed to currency risks resulting from export and import, intra-group trade across borders of the euro-area, as well as internal loans and investments in foreign subsidiaries. The objective of the Group's currency risk management is to limit the uncertainties associated with foreign exchange rates and their effect on the Group's profit, cash flows and balance sheet.

Transaction risk

Transaction risk is caused by foreign currency denominated items in the balance sheet and future cash flows related to sales, purchases and return of capital. Transaction risk management aims to hedge the Group's profit against the effects of changes in foreign exchange rates.

The objective is to hedge 60-80% of highly probable commercial cash flows. The average hedging ratio has remained at the target level. Hedging transactions are executed with forward exchange contracts or options for the following 12 months at the most, predominantly following the pricing periods of customers. Altia may apply cash flow hedge accounting to foreign exchange derivatives. Intra-group loan arrangements are hedged by 100% and hedge accounting is not applied to these arrangements.

The two tables below present the Group's net currency position, first on the basis of financial instruments recorded on the balance sheet and secondly including on a net basis also the estimated future foreign currency net cash flows. The currency position resulting from the financial instruments in accordance with IFRS 7 consists of trade receivables, trade payables, cash and cash equivalents, the Group's internal and external loans and derivative instruments.

The net currency risk has been taken into account in the table if the transaction currency is other than the company's functional currency.

TABLE 1: THE GROUP'S NET CURRENCY POSITION AT 31 DECEMBER

The net currency position resulting from the financial instruments in accordance with IFRS 7			
EUR million	2017	2016	2015
EUR-SEK	-19.5	-11.8	-19.1
EUR-NOK	-1.3	-2.7	0.2
EUR-USD	3.9	5.4	4.7
EUR-AUD	1.7	2.4	2.1

The Group's net currency position at 31 December including also the hedged commercial cash flows			
EUR million	2017	2016	2015
EUR-SEK	2.0	1.6	2.4
EUR-NOK	1.3	-0.1	1.1
EUR-USD	0.1	0.6	-0.3
EUR-AUD	0.0	0.2	0.1

Translation risk
Translation risk is mainly caused by the parent company's foreign currency denominated net investments in foreign subsidiaries, which cause a translation difference in equity in the Group's balance sheet upon consolidation. The Group Treasury regularly analyses the translation risk and reports any material issues to the management. The most significant net investments are denominated in the Swedish and Norwegian kroner. The translation risk has not been hedged.

2. Interest rate risk

The objective of interest rate risk management is to minimise the impact of fluctuations arising from interest rate changes on the Group's profit. Altia refinanced its loan portfolio in December 2017 and all existing loans were early repaid as described in detail in Note 3.3.1. At 31 December 2017 the total nominal amount of loans was EUR 100.0 million and was divided as follows:

- The EUR 20.0 million loan matures in January 2022 with annual EUR 5 million instalments. The interest rate on the loan is based on three –month market rate. Currently these interest payments are not hedged.
- The EUR 55.0 million portion of the loan matures in January 2023 subject to one year extension option. The interest rate on the loan is based on three-month market rate. Altia has hedged these interest payments to fixed interest rate by using an interest rate derivative amounting to EUR 20 million. Hedge accounting principles are applied to this interest rate derivative. The hedge has been regarded as effective.
- The EUR 15.0 million pension loan matures in January 2028. The interest rate is fixed for the whole loan period.
- The EUR 10 million short term loan matures in March 2018. The interest rate on the loan is three-month market rate. The interest payment is not hedged.

The maximum amount under Altia's domestic commercial paper program is EUR 100 million. There were no issued commercial papers at 31 December 2017, 2016 and 2015.

Altia's maximum limit for sale of trade receivables amounts to EUR 145 million and is approved by Board of Directors. The sold trade receivables are derecognised at the time of trade with no obligation to repurchase. The related costs are recognised in other financial expenses. The trade receivables are current receivables and the related interest rate risk is not hedged. The amount of the sold trade receivables was EUR 83.6 million at 31 December 2017 (2016: EUR 85.6 million, 2015: EUR 91.4 million).

3. Price risk associated with commodities

Barley
In 2017, Altia used approximately 206 million kilos of Finnish barley to produce ethanol and starch. The availability of high-quality domestic barley is ensured with contract cultivation and co-operation with grain growers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of various factors that affect the Finnish barley supply and demand and is therefore considered a significant risk for Altia. The price risk has not been hedged with derivative instruments.

Electricity
Strong increase in the market price of electricity is a significant risk for Altia. The risk is managed by following Altia's principles for electricity procurement. These principles determine the hedging limits, within which the electricity price risk is hedged. The hedges are done with OTC-derivatives of Nasdaq OMX Oslo ASA. The hedging service for electricity procurement has been outsourced.

At the end of 2017, the hedging ratio for deliveries for the next 12 months was 67.6% (2016: 68.3%, 2015: 80.7%), in line with the set targets. In 2017, the total exposure was EUR 2.5 million and the average hedging ratio was 70.0%.

Cash flow hedge accounting in accordance with IAS 39 is applied to the hedges against electricity price risk, and hedge effectiveness is tested quarterly. The ineffective portion at the end of 2017, EUR -0.1 million (2016: EUR -0.1 million, 2015: EUR 0.2 million) is recognised within financial costs.

Altia purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

4. Sensitivity to market risks

The following table describes the sensitivity of the Group's profit and equity (before taxes) to changes in electricity prices and foreign exchange rates. When Altia applies hedge accounting, the sensitivity is directed at equity. When hedge accounting is not applied, the sensitivity is recognised as a potential impact on profit or loss.

The sensitivity to foreign exchange rate changes is calculated from the net currency position resulting from financial instruments.

TABLE 2: SENSITIVITY ANALYSES

Sensitivity of financial instruments to market risks (before taxes) in accordance with IFRS 7	2017		2016		2015	
EUR million	Income statement	Equity	Income statement	Equity	Income statement	Equity
+/-10% electricity	-	+/-0.3	-	+/-0.3	+/-0.1	+/-0.2
+/-10% change in EUR/NOK exchange rate	+/-0.1	-	+/-0.3	-	+/-0.0	-
+/-10% change in EUR/SEK exchange rate	+/-2.0	-	+/-1.2	-	+/-1.9	-
+/-10% change in EUR/USD exchange rate	-/+0.4	-	-/+0.5	-	-/+0.5	-
+/-10% change in EUR/AUD exchange rate	-/+0.2	-	-/+0.2	-	-/+0.2	-

At the end of 2017 the total group floating rate liability position consists of floating rate liabilities EUR 85.0 million (2016: EUR 72.5 million, 2015: EUR 95.0 million) and floating leg of interest rate swap EUR 20 million (2016: EUR 20.0 million, 2015: 20.0 million) which is netting the interest rate risk.

A one percentage point increase in interest rates would have an EUR -0.7 million effect in income statement (2016: EUR -0.5 million, 2015: EUR -0.8 million). The effect of increase in market interest rates on the Group's profit is determined from net interest expenses.

Liquidity risk

In order to manage the liquidity risk, Altia continuously maintains sufficient liquidity reserves, which at the end of 2017 comprised Group's EUR 10 million overdraft facility and a EUR 60 million revolving credit facility. As of December 2017 EUR 10 million from revolving credit facility was in use. The revolving credit facility matures in January 2023 subject to one year extension option. More detailed information on the Group's external loans is provided in the interest rate risk section.

TABLE 3: LIQUIDITY RESERVES

Cash and cash equivalents and unused committed credit limits EUR million	2017	2016	2015
Cash and cash equivalents	52.4	68.0	76.3
Overdraft facilities	10.0	20.0	20.0
Revolving credit line	50.0	50.0	60.0
TOTAL	**112.4**	**138.0**	**156.3**

TABLE 4: MATURITIES OF FINANCIAL LIABILITIES

Contractual payments on financial liabilities 2017 EUR million	Carrying value	Cash flows 2018 Fixed rate	Cash flows 2018 Variable rate	Cash flows 2018 Re-payment	Cash flows 2019 Fixed rate	Cash flows 2019 Variable rate	Cash flows 2019 Re-payment	Cash flows 2020- Fixed rate	Cash flows 2020- Variable rate	Cash flows 2020- Re-payment
Non-derivative:										
Loans from financial institutions[1]	-88.6	-	-0.7	-10.0	-	-0.8	-5.0	-	-2.2	-70.0
Loans from pension institutions[2]	-16.0	-0.1	-	-0.8	-0.2	-	-1.5	-0.7	-	-12.8
Finance lease liabilities	0.4	-	-	0.1	-	-	0.1	-	-	0.2
Trade payables	-29.2	-	-	-29.2	-	-	-	-	-	-
Derivative:										
Currency derivatives, hedge accounting										
Inflow	30.9	-	-	30.9	-	-	-	-	-	-
Outflow	-30.2	-	-	-30.2	-	-	-	-	-	-
Currency derivatives, non-hedge accounting										
Inflow	24.8	-	-	24.8	-	-	-	-	-	-
Outflow	-24.5	-	-	-24.5	-	-	-	-	-	-
Interest rate derivatives, hedge accounting	-1.4	-0.3	-	-	-0.3	-	-	-0.8	-	-
Commodity derivatives, hedge accounting	-0.3	-	-	0.0	-	-	-0.1	-	-	-0.1
TOTAL	**-133.9**	**-0.4**	**-0.7**	**-38.8**	**-0.5**	**-0.8**	**-6.6**	**-1.5**	**-2.2**	**-82.6**

[1] Loans from financial institutions mature 2022 and 2023
[2] Loans from pension institutions mature 2028

Contractual payments on financial liabilities 2016 EUR million	Carrying value	Cash flows 2017 Fixed rate	Cash flows 2017 Variable rate	Cash flows 2017 Re-payment	Cash flows 2018 Fixed rate	Cash flows 2018 Variable rate	Cash flows 2018 Re-payment	Cash flows 2019- Fixed rate	Cash flows 2019- Variable rate	Cash flows 2019- Re-payment
Non-derivative:										
Loans from financial institutions	-73.9	-	-0.5	-7.5	-	-0.5	-35.0	-	-0.4	-30.0
Finance lease liabilities	0.5	-	-	0.3	-	-	0.2	-	-	0.0
Trade payables	-28.0	-	-	-28.0	-	-	-	-	-	-
Derivative:										
Currency derivatives, hedge accounting										
Inflow	26.5	-	-	26.6	-	-	-	-	-	-
Outflow	-26.6	-	-	-26.6	-	-	-	-	-	-
Currency derivatives, non-hedge accounting										
Inflow	52.9	-	-	52.9	-	-	-	-	-	-
Outflow	-52.5	-	-	-52.5	-	-	-	-	-	-
Interest rate derivatives, hedge accounting	-1.9	-0.3	-	-	-0.3	-	-	-1.3	-	-
Commodity derivatives, hedge accounting	0.0	-	-	0.0	-	-	0.0	-	-	0.0
TOTAL	**-102.8**	**-0.3**	**-0.5**	**-34.8**	**-0.3**	**-0.5**	**-34.8**	**-1.3**	**-0.4**	**-29.9**

Contractual payments on financial liabilities 2015 EUR million	Carrying value	Cash flows 2016 Fixed rate	Cash flows 2016 Variable rate	Cash flows 2016 Re-payment	Cash flows 2017 Fixed rate	Cash flows 2017 Variable rate	Cash flows 2017 Re-payment	Cash flows 2018- Fixed rate	Cash flows 2018- Variable rate	Cash flows 2018- Re-payment
Non-derivative:										
Loans from financial institutions	-98.1	-	-0.8	-7.5	-	-0.7	-7.5	-	-1.6	-80.0
Finance lease liabilities	2.3	-	-	0.7	-	-	0.7	-	-	0.8
Trade payables	-28.9	-	-	-28.9	-	-	-	-	-	-
Derivative:										
Currency derivatives, hedge accounting										
Inflow	30.5	-	-	30.5	-	-	-	-	-	-
Outflow	-30.2	-	-	-30.2	-	-	-	-	-	-
Currency derivatives, non-hedge accounting										
Inflow	8.4	-	-	8.4	-	-	-	-	-	-
Outflow	-8.4	-	-	-8.4	-	-	-	-	-	-
Interest rate derivatives, hedge accounting	-1.5	-0.2	-	-	-0.2	-	-	-1.1	-	-
Commodity derivatives, hedge accounting	-0.8	-	-	-0.5	-	-	-0.2	-	-	-0.2
TOTAL	**-126.8**	**-0.2**	**-0.8**	**-35.9**	**-0.2**	**-0.7**	**-7.0**	**-1.1**	**-1.6**	**-79.4**

Credit risk

The objective of Altia's credit risk management is to minimise the losses if one of the Group's counterparties fails to meet its obligations. The principles of credit risk management are described in the Group's credit policy.

Credit risks are caused by a counterparty not fulfilling its contractual payment obligations or the counterparty's credit rating changing in a manner that affects the market value of the financial instruments it has issued.

The maximum amount of credit risk is equal to the carrying amount of the Group's financial assets. No significant risk concentrations relate to trade receivables. The aim is to minimise credit risks by active credit management and by taking into account customers' credit rating when determining the payment term of invoices.

4.2. CAPITAL RISK MANAGEMENT

The target of Altia's capital management is to secure an effective capital structure that offers the company a continuous access to the capital markets despite the volatility of the industry. Although Altia does not have a public rating, the company aims to obtain a capital structure comparable to that of other companies in the industry that have investment rating. The Board of Directors monitors the Group's capital structure regularly.

Altia monitors its capital based on gearing (the ratio of interest-bearing net liabilities to equity). Interest-bearing net liabilities consist of the loans less cash and cash equivalents. The current level of gearing is distinctly lower than the limit determined in the Group's loan terms.

During the business cycle, the company's net gearing is likely to fluctuate, and the objective is to retain a sufficiently strong capital structure to secure the Group's financing needs. At 31 December 2017, 31 December 2016 and 31 December 2015 the gearing ratio was as follows:

TABLE 5: GEARING

Gearing as of 31 December, EUR million	2017	2016	2015
Borrowings	100.1	72.8	96.7
Cash and cash equivalents	52.4	68.0	76.3
Net debt	47.7	4.7	20.4
Total equity	136.8	191.3	168.6
GEARING AT 31 DECEMBER	**34.9%**	**2.5%**	**12.1%**

5. Consolidation

5.1 GENERAL CONSOLIDATION PRINCIPLES

Consolidation

Consolidation, consolidation method and classification of ownership interests depends on whether the Group has power to control or jointly control the entity or have significant influence or other interests in the entity. When the Group has power to control the entity, it is consolidated as a subsidiary according to principles described in Note 5.2. Subsidiaries. When the Group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using the principles set in Note 5.3. Associated companies and interests in joint operations. If the Group does not have power to control nor significant influence in the entity, its ownership interests are classified as Financial assets available-for-sale and accounted for according to principles described in Note 3.2.1.

Foreign currency items

The consolidated financial statements are presented in euro, which is the functional and presentation currency of the parent company. Transactions in foreign currencies are translated to euro at average foreign exchange rates published by the European Central Bank on banking days. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the average exchange rates prevailing at that date. Foreign currency differences arising on translation are recognised in profit or loss. Foreign exchange gains and losses related to purchases and sales are recognised in the respective items and included in operating result. Foreign currency gains and losses arising from loans denominated in foreign currencies are recognised in finance income and expenses.

Income and expenses for the statements of comprehensive income of foreign subsidiaries that operate outside the eurozone are translated using the average rates of the

European Central Bank's exchange rates at the end of the month. The statements of financial position of foreign subsidiaries are translated using the average exchange rates ruling at the reporting date. Foreign currency differences arising on the translation of profit or loss for the period with different exchange rates in the statement of comprehensive income and in the balance sheet are recognised in other comprehensive income and included in translation differences in equity. Changes in translation differences are recognised in other comprehensive income.

In the consolidated financial statements, exchange rate differences arising from the translation of foreign currency denominated loans to foreign subsidiaries, which form a part of net investments in foreign companies, are recognised in other comprehensive income and included in translation differences within equity.

Translation differences arising from elimination of the cost of foreign subsidiaries and from translation of the foreign subsidiaries' post-acquisition profits and losses are recognised in other comprehensive income and presented as a separate item within equity. Goodwill and the fair value adjustments to the carrying amounts of assets and liabilities of foreign units are accounted for as assets and liabilities of the respective foreign units, which are translated to euro at the exchange rates prevailing at the reporting date. If these foreign units are entirely or partly disposed of, related exchange rate differences are recognised in profit or loss as part of the gain or loss on disposal.

5.2. SUBSIDIARIES

Subsidiaries consolidation principles

Consolidated financial statements of Altia include the parent company, Altia Plc, and all subsidiaries. Subsidiaries are all those in which the parent company exercises control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of acquired subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All business combinations are accounted for by using the acquisition method. The consideration transferred and the identifiable assets acquired and liabilities assumed in the acquired company are measured at fair value at the acquisition date. The amount exceeding the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired is recorded as goodwill.

All acquisition-related costs, with the exception of costs to issue debt or equity securities, are expensed. The consideration transferred does not include any transactions accounted for separately from the acquisition. Any contingent consideration is recognised at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as a liability is measured at fair value at each reporting date and any resulting gain or loss is recognised in profit or loss.

Intra-group transactions, receivables, liabilities and unrealised gains, as well as the distribution of profits within the Group are eliminated in preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss in question results from impairment.

The Group had no non-controlling interests at 31 December 2017, 31 December 2016 or 31 December 2015.

Altia Plc had 23 subsidiaries at the end of the reporting period (23 subsidiaries at 31 December 2016 and at 31 December 2015).

	Parent company's share of ownership (%)	Group's share of ownership (%)	Country of incorporation
A-Beverages Oy	100.00	100.00	Finland
Altia Eesti AS	100.00	100.00	Estonia
Altia Denmark A/S	100.00	100.00	Denmark
Altia Holding Sweden AB	100.00	100.00	Sweden
SIA Altia Latvia	100.00	100.00	Latvia
Altia Norway AS	100.00	100.00	Norway
Altia Sweden AB	-	100.00	Sweden
Altia Sweden Services AB	-	100.00	Sweden
Alpha Beverages Oy	100.00	100.00	Finland
Best Buys International AS	100.00	100.00	Norway
BevCo AB	-	100.00	Sweden
Bibendum AB	-	100.00	Sweden
Bibendum AS	100.00	100.00	Norway
ExCellar Oy	100.00	100.00	Finland
Harald Zetterström oy/ab	100.00	100.00	Finland
Interbev AS	100.00	100.00	Norway
Larsen SAS	100.00	100.00	France
Philipson & Söderberg AB	-	100.00	Sweden
Prime Wines Oy	100.00	100.00	Finland
Premium Wines AS	100.00	100.00	Norway
Ström AS	100.00	100.00	Norway
Vinuversum AB	-	100.00	Sweden
Oy Wennerco Ab	100.00	100.00	Finland

5.3. ASSOCIATED COMPANIES AND INTERESTS IN JOINT OPERATIONS

Associated companies

Associated companies are all entities over which the Group accompanies a shareholding of over 20% of voting rights or otherwise has significant influence, but not control. Altia has an investment in an associated company Palpa Lasi Oy.

Associated companies are consolidated by using the equity method. Under the equity method, the investment is initially recognised at cost and subsequently adjusted with the change in the net assets of the investee after the acquisition date, consistent with the ownership interest of the Group. After the acquisition the Group's share in the associated company's profit and loss for the period is separately disclosed after operating result. If the Group's share in the associated company's loss exceeds the carrying amount of the investment, the investment is recognised at zero value in the consolidated balance sheet and the loss exceeding the carrying amount is not consolidated, unless the Group has committed to fulfil the company's obligations. An investment in an associated company includes goodwill arisen on acquisition. The Group's share in changes in the associated company's other comprehensive income is recognised in consolidated other comprehensive income.

Results from the transactions between the Group and its associates are recognised only to the extent of unrelated investor's interests in the associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. In case of such indications, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its' carrying value. The impairment is recognised in share of results in associated companies.

Financial Statement's of associated companies have been changed where necessary to correspond with the accounting policies adopted by the Group. If financial statements for the period are not available, the share of the profit is included in the consolidated financial statements based on the preliminary financial statements or latest available information.

Interests in joint operations

A joint arrangement is an arrangement of which two or more parties have contractually agreed joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. Altia has an interest through a receivable in Roal Oy based on the contractual relationship with the other party to the joint operation. The interest in Roal Oy is accounted for as a joint operation.

ASSOCIATED COMPANIES AND JOINT OPERATIONS

	2017 Share of ownership %	2016 Share of ownership %	2015 Share of ownership %
Roal Oy, Finland	50.00	50.00	50.00
Palpa Lasi Oy, Finland	25.53	25.53	25.53

Roal Oy engages enzyme business. The joint operation's other owner is ABF Overseas Ltd.
Palpa Lasi Oy engages in the recycling and re-use of glass beverage packages.

Altia has joint control over Roal but the option right held by the other shareholder represents in substance a receivable with a fixed rate of return and Altia does not have a right to 50% of the net assets until the option lapses. Accordingly, the interest is classified as a joint operation with Altia accounting for its share of assets as a receivable with the annual minimum dividend accounted for as interest income. The receivable amounted to EUR 7.6 million as at 31 December 2017, 31 December 2016 and 31 December 2015.

FINANCIAL SUMMARY OF ASSOCIATED COMPANIES

EUR million	2017	2016	2015
Assets	5.9	5.8	5.2
Liabilities	7.3	8.9	8.8
Net assets	-1.5	-3.1	-3.6
Net sales	17.5	15.9	15.1
Result for the period	1.2	0.6	-0.3

The net assets of Palpa Lasi Oy is negative at 31 December 2017, 31 December 2016 and 31 December 2015.

Related party transactions with associated companies and joint operations are presented in Note 6.3.

6. Other notes

6.1. INCOME TAX EXPENSE

Income tax expense

The Group's income tax expense recognised through profit or loss comprises current tax based on taxable income for the period, any adjustments to tax payable in respect of previous periods and deferred taxes. Current income tax based on taxable income is calculated according to the local tax regulations of each Group company.

Tax effects related to transactions or other events recognised in profit or loss are recognised in profit or loss. If the taxes relate to items of other comprehensive income or transactions or other events recognised directly in equity, income tax expense is recognised within the respective items. The Group's share of profit or loss in associated companies is reported as calculated from the net profit and thus including the income tax effect.

Deferred tax assets and liabilities are principally recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from property, plant and equipment and intangible assets, carry forward of unused tax losses and fair value allocations on business combinations. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax liabilities are recognised in full. Deferred taxes are calculated using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised for foreign subsidiaries undistributed earnings only when related tax effects are probable.

From 2017 onwards deferred tax assets and liabilities are set off when they are levied by same taxing authority and Altia has legally enforceable right to set off the balances.

Critical estimates and management judgements – Deferred tax assets:

Judgment is required in assessing whether deferred tax assets are recognised on the balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These future cash flow estimates depend on estimates of future sales volumes, price levels of main raw materials, capital expenditure and other components affecting profitability of the operations. These estimates and assumptions are subject to risk and uncertainty, hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of any other tax losses and temporary differences not yet recognised. Altia's ability to generate taxable profit is also subject to general economic, financial, competitive, legislative and regulatory factors that are beyond its control. If Altia generates lower future taxable profits than what management has assumed in determining the amounts of the recognised deferred tax assets, the assets would become impaired, either partly or in full. Accordingly, amounts recognised in balance sheet could potentially be reversed through profit and loss. Changes in circumstances may also result in recognition of deferred tax assets for tax losses not yet recognised as an asset.

INCOME TAX EXPENSE

EUR million	2017	2016	2015
Current income tax expense	6.3	4.7	3.3
Adjustments to taxes for prior periods	-0.2	0.1	0.4
Deferred taxes:			
Origination and reversal of temporary differences	0.6	4.1	1.5
Impact of changes in tax rates	0.0	0.0	-0.0
TOTAL	**6.7**	**9.0**	**5.2**

Settlement of Altia's defined benefit pension plan impacted a deferred tax expense by EUR 4.2 million in year 2016. Change in pension arrangement is described in Note 2.5.

The reconciliation of the tax expense recognised in profit and loss and the tax expense calculated using Altia Group's domestic corporate tax rate (20.0%):

EUR million	2017	2016	2015
Result before taxes	25.0	45.0	23.4
Income tax using the parent company's tax rate	5.0	9.0	4.7
Effect of tax rates of subsidiaries in foreign jurisdictions	0.4	-0.2	-0.0
Tax-exempt income	-0.2	-0.3	-0.2
Non-deductible expenses	0.1	0.2	0.2
Utilisation of previously unrecognised tax losses	-0.4	-0.0	-0.0
Adjustments to taxes for prior periods	-0.2	0.1	0.4
Effect of changes in tax rates	0.0	0.0	-0.0
Tax arising on dividends	0.6	-	-
Tax on undistributed earnings	1.7	-	-
Other items	-0.3	0.2	0.2
TAX EXPENSE IN PROFIT OR LOSS	**6.7**	**9.0**	**5.2**

The recognised tax expense on undistributed earnings, EUR 1.7 million, is due to the reassessment of deferred tax liabilities of retained earnings in Estonia.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

2017 EUR million	Before tax	Tax	Net of tax
Cash flow hedges	1.4	-0.3	1.1
Available-for-sale financial assets	0.6	-	0.6
Translation differences	-4.0	-	-4.0
Remeasurements of post-employment benefit obligations	-0.0	0.0	-0.0
TOTAL	**-2.0**	**-0.3**	**-2.3**

2016 EUR million	Before tax	Tax	Net of tax
Cash flow hedges	0.1	-0.0	0.1
Translation differences	-2.7	-	-2.7
Remeasurements of post-employment benefit obligations	-0.4	0.1	-0.4
TOTAL	**-3.0**	**0.1**	**-3.0**

2015 EUR million	Before tax	Tax	Net of tax
Cash flow hedges	-0.0	0.0	-0.0
Translation differences	1.5	-	1.5
Remeasurements of post-employment benefit obligations	5.8	-1.2	4.6
TOTAL	**7.3**	**-1.2**	**6.1**

DEFERRED TAX ASSETS AND LIABILITIES

Change in deferred tax assets and liabilities during 2017: EUR million	1 Jan 2017	Recognised in profit or loss	Recognised in other comprehensive income	Exchange rate differences	31 Dec 2017
Deferred tax assets:					
Tax losses	0.2	0.1	-	-0.0	0.3
Fixed assets	3.4	-1.1	-	-0.0	2.4
Pension benefits	0.3	0.0	0.0	-0.0	0.3
Internal margin of inventories	0.1	0.0	-	-0.0	0.1
Recognised in hedge reserve	0.4	-	-0.3	-0.0	0.1
Other temporary differences	0.2	-0.0	-	-0.0	0.2
Total deferred tax assets	**4.6**	**-1.0**	**-0.3**	**-0.0**	**3.3**
Offset against deferred tax liabilities					-2.3
Net deferred tax assets					**1.0**
Deferred tax liabilities:					
Fixed assets	5.2	-0.0	-	-0.0	5.2
Recognised in hedge reserve	0.0	-	0.0	0.0	0.0
Fair value allocation on acquisitions	3.2	-0.4	-	-0.1	2.7
Deductable goodwill depreciation	10.5	0.0	-	-0.2	10.4
Undistributed profits of foreign subsidiaries	-	1.7	-	-	1.7
Other temporary differences	1.7	-1.6	-	-0.0	0.0
Total deferred tax liabilities	**20.7**	**-0.4**	**0.0**	**-0.3**	**20.0**
Offset against deferred tax assets					-2.3
Net deferred tax liabilities					**17.7**

Change in deferred tax assets and liabilities during 2016: EUR million	1 Jan 2016	Recognised in profit or loss	Recognised in other comprehensive income	Exchange rate differences	31 Dec 2016
Deferred tax assets:					
Tax losses	1.1	-0.9	-	0.0	0.2
Fixed assets	4.2	-0.8	-	0.0	3.4
Pension benefits	4.4	-4.2	0.1	0.0	0.3
Internal margin of inventories	0.1	-0.0	-	-0.0	0.1
Recognised in hedge reserve	0.4	-	-0.0	-0.0	0.4
Other temporary differences	0.5	-0.3	-	0.0	0.2
Total	**10.7**	**-6.2**	**0.1**	**0.0**	**4.6**
Deferred tax liabilities:					
Fixed assets	4.5	0.8	-	0.0	5.2
Recognised in hedge reserve	0.0	-	0.0	0.0	0.0
Fair value allocation on acquisitions	5.2	-1.9	-	-0.1	3.2
Deductable goodwill depreciation	10.8	0.0	-	-0.3	10.5
Other temporary differences	2.7	-1.0	-	0.0	1.7
Total	**23.2**	**-2.1**	**0.0**	**-0.4**	**20.7**

Change in deferred tax assets and liabilities during 2015: EUR million	1 Jan 2015	Recognised in profit or loss	Recognised in other comprehensive income	Exchange rate differences	31 Dec 2015
Deferred tax assets:					
Tax losses	1.9	-0.7	-	-0.0	1.1
Fixed assets	4.7	-0.5	-	-0.0	4.2
Pension benefits	5.6	0.0	-1.2	-0.0	4.4
Internal margin of inventories	0.1	0.0	-	-0.0	0.1
Recognised in hedge reserve	0.4	-	-0.0	-	0.4
Other temporary differences	1.2	-0.6	-	0.0	0.5
Total	**13.9**	**-1.9**	**-1.2**	**-0.0**	**10.7**
Deferred tax liabilities:					
Fixed assets	3.3	1.2	-	-0.0	4.5
Recognised in hedge reserve	0.1	-	-0.1	-0.0	0.0
Fair value allocation on acquisitions	5.7	-0.6	-	0.1	5.2
Deductable goodwill depreciation	10.1	0.5	-	0.2	10.8
Other temporary differences	4.1	-1.4	-	-0.0	2.7
Total	**23.3**	**-0.3**	**-0.1**	**0.2**	**23.2**

At 31 December 2017, the Group had EUR 5,6 million (2016: EUR 8.2 million, 2015: EUR 7.2 million) of tax loss carry forwards for which no deferred tax was recognised. EUR 5.5 million of these temporary differences expire in 5 years and the rest expire between 5-10 years. Altia management estimates these losses arise in subsidiaries which have neither indication of future taxable income nor other convincing evidence that tax losses can be utilised and deferred tax asset be recognised in balance sheet.

6.2. COLLATERALS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

EUR million	2017	2016	2015
Collaterals and commitments			
Collaterals given on behalf of Group companies			
Mortgages	18.5	18.5	18.5
Guarantees	6.4	8.0	8.5
TOTAL COLLATERALS	**24.9**	**26.5**	**27.0**
Other commitments			
Operating lease obligations			
Less than one year	4.8	5.0	6.6
Between one and five years	11.5	12.2	12.8
More than five years	0.9	2.5	4.9
Total operating lease obligations	17.1	19.8	24.3
Other commitments	19.7	26.1	25.5
TOTAL COMMITMENTS	**36.8**	**45.9**	**49.8**

Collaterals given on behalf of Group companies all relate to commitments to authorities.

Operating lease obligations consists of office, cars and forklift rental commitments.

Other commitments include mainly purchase obligations of wine and cognac.

Assets not recognised in the balance sheet, emission allowances

The Group participates in the European Union emission trading scheme, where it has been granted a certain number of carbon dioxide emission allowances for a certain period of time, free of charge. Altia Plc discloses its carbon dioxide emission allowances granted free of charge on net basis. Following from this, the Group does not recognise in the balance sheet the granted emission allowances, nor the obligation to deliver allowances corresponding to the realised emissions. The Group does not recognise income or expenses arising from emission allowances through profit or loss when the emission allowances granted are sufficient to cover the obligation to deliver allowances corresponding to the amount of emissions made. If the realised emissions exceed the granted emission allowances, the obligation arising from the excess emissions is recognised at fair value as a liability in the balance sheet at the reporting date. If the realised emissions fall below the granted emission allowances, the difference is not recognised in the balance sheet but it is disclosed in the notes to the financial statements, measured at fair value.

Altia´s actual emissions are below the emission allowances granted. The following table presents changes in allowances for financial years 2017, 2016 and 2015, as well as their fair values:

Emission allowances, kilotons	2017	2016	2015
Emission allowances received	27.4	28.0	28.5
Excess emission allowances from the previous period	39.2	37.4	39.6
Adjustments related to prior year's estimates	-0.0	-0.0	-0.0
Realised emissions	-21.0	-26.2	-30.7
EMISSION ALLOWANCES AT 31 DECEMBER	**45.6**	**39.2**	**37.4**
Fair value of emission allowances at 31 December, EUR million	0.4	0.2	0.3

The emission allowances received during year 2017 and the realised emissions are estimates, which will be adjusted during the spring 2018. Altia continues to operate within the emission trading system for the trading period 2013–2020.

6.3. RELATED PARTY TRANSACTIONS

The Company's related parties include the subsidiaries, associated companies and joint operations. The subsidiaries are presented in Note 5.2 and associated companies and joint operations in Note 5.3. Related party transactions include such operations that are not eliminated in the Group´s consolidated financial statements.

Related party also include the Board of Directors, the CEO, the members of the Executive Management Team and their family members as well as entities controlled or jointly controlled by these persons, as well as the State of Finland which owns 100% of the shares in Altia. Also entities that are controlled or jointly controlled by, or are associates of the State, are related parties of Altia. Altia has applied the exemption to report only material transaction with the government related entities. Transactions with related parties are entered into on market terms. Altia has related party transaction on a continuous basis with its major customer Alko. Transaction with Alko have been presented below under Other companies considered related parties.

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH RELATED PARTIES

EUR million	2017	2016	2015
Sales of goods and services			
Associates and joint operations	1.0	1.3	2.8
Other companies considered related parties	82.8	82.9	88.9
TOTAL	**83.8**	**84.2**	**91.7**
Purchases of goods and services			
Associates and joint operations	2.1	2.5	2.7
Other companies considered related parties	4.1	4.8	5.3
TOTAL	**6.2**	**7.3**	**8.1**
Outstanding balances from sales and purchases of goods and services			
Trade receivables			
Associates and joint operations	0.2	0.0	0.2
Other companies considered related parties	2.8	7.3	2.9
Trade payables			
Associates and joint operations	0.0	0.3	0.3
Other companies considered related parties	0.1	0.3	0.4

Other companies considered as related parties includes companies and organisations controlled by the State of Finland.

MANAGEMENT REMUNERATION

EUR million	2017	2016	2015
CEO			
Salaries and other short-term employee benefits	0.3	0.3	0.3
Performance bonus and the bonuses from long-term incentive plan	0.3	0.1	0.0
Pension benefits	0.1	0.1	0.1
TOTAL	**0.7**	**0.5**	**0.4**
Members of the Executive Management Team (CEO not included)			
Salaries and other short-term employee benefits	1.9	1.5	1.4
Pension benefits	0.3	0.2	0.2
TOTAL	**2.2**	**1.7**	**1.6**
Members and deputy members of the Board of Directors	**0.2**	**0.2**	**0.2**

No monetary loans have been granted to the CEO or the members of the Board of Directors, nor any collaterals or commitments granted on their behalf.

The retirement age of the CEO of the parent company is 63 years.

6.4. ADOPTION OF NEW OR AMENDED IFRS STANDARDS AND INTERPRETATIONS APPLICABLE IN FUTURE REPORTING PERIODS

Altia has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date of each standard and interpretation or, if the date is other than the first day of the reporting period, from the beginning of the subsequent reporting period.

IFRS 15 Revenue Recognition
(effective for annual periods beginning on or after 1 January 2018):

IFRS 15 Revenue from Contracts with Customers is the new revenue standard, which Altia will apply for reporting periods beginning on 1 January 2018. The new standard will replace IAS 18 and IAS 11 standards and the related interpretations. The IABS has also issued clarifications to IFRS 15. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The new standard includes a five-step process that Altia will apply for contracts with customers before revenue is recognised.

The steps that will be required to be followed for revenue recognition are the following and comprise the basis for the analysis Altia has completed as part of the adoption process for the new standard:

1. identifying the contract
2. identifying the performance obligations
3. determining the transaction price
4. allocation of the transaction price to each performance obligation (to each distinct good or service promised to the client) on a relative stand-alone selling price basis
5. recognising the revenue when (or as) the performance obligation is satisfied by transferring the good or service to the client.

Altia's revenue comprises mainly sales of alcoholic products, which consists of a portfolio of Altia's own brands and international partner brands. Altia imports, sells and distributes wine, spirits and other beverage products to monopolies, hotels, restaurants, catering business, retail business, whole sale customers and export, border traffic and sea traffic customers. Altia also provides its industrial partners with solutions and services. Altia sells industrial products such as ethanol, starch and feed components and offers contract manufacturing services from distillation to bottling and customer services & logistics to its industrial customers.

Altia has assessed the impacts of the new revenue standard and has not identified any significant differences arising from IFRS 15 criteria compared to current practice:

Identifying performance obligations:
In the alcoholic products and industrial product sales each delivered product or batches of products are distinct performance obligations and the customer contracts do not typically contain a separate promise for transportation service. Accordingly, even when the control of the goods transfers to the customer before shipment, Altia does not arrange for the goods to be shipped and does not offer any other transportation or handling service to its customers. If control does not transfer to the customer before shipment, the transportation service is a fulfillment activity and not a distinct service. Accordingly, the transportation service is not a separate performance obligation to be accounted for separately from the sale of goods. In its partner supplier agreements, which entitle Altia to distribute partners' products, Altia acts as a principal towards the end customer having control over the product, discretion in establishing prices and owning the inventory. Accordingly, revenue recognised is the gross amount to which Altia is entitled to in these product sales.

In the contract services to Altia's industrial customers the contracts essentially include of a single performance obligation, being a series of distinct services such as contract manufacturing services, customer services, logistics and warehousing. In these arrangements Altia does not have any control over the product or inventory risk.

Determining the transaction price:
Contracts with customers typically include several variable considerations (volume discounts, bonuses, marketing support such as slotting fees, sanctions relating to certain predetermined KPIs or Altia's failure to timely perform its obligations, product returns, differences between a standard cost price and actual costs etc.). Under IFRS 15, an entity needs to estimate the variable consideration and include in the transaction price an amount that fulfils the highly probable criterion. However, Altia has already under the current revenue recognition standards estimated the variable considerations as part of its revenue recognition process. In addition, Altia has been able to reliably estimate the outcome and therefore, management's view is that the highly probable criterion is typically met. Further, the amount of realised sanctions is immaterial and therefore, no adjustments to the transaction price will be needed at transition.

With respect to right of return clauses Altia has currently recognised revenue for the transferred products in the amount of consideration to which it expects to be entitled and a refund liability related to the products that are expected to be returned. However, Altia has recognised the corresponding amount of products subject to return to its inventory balances. Current measurement treatment complies with IFRS 15, however instead of recognising the value for goods expected to be returned to inventory, Altia will need to recognise a separate asset on its balance sheet reflecting the right to receive the goods. Under IFRS 15, slotting fees are recognised as a reduction of revenue. Currently the amounts are recognised as expenses. The identified classification differences in regards to returns and slotting fees are not material for Altia.

Allocation of the transaction price:
In general the prices represent the stand-alone selling prices and accordingly there is no need to allocate standalone selling price. Further, management view is that the allocation of discounts to each elements in the contract would not result any differences in the amount or timing of revenue recognised because the control of all ordered goods transfers at the same time. In the contract services requirements to allocate variable consideration to a distinct service within the series are met and therefore Altia allocates and recognizes variable consideration in the period it has the contractual right to the fee.

Recognising revenue:
Based on the analysis conducted to date, management does not expect significant changes to the timing of revenue recognition as a result of adopting IFRS 15. Altia does not have any incremental costs of obtaining a contract (e.g. sales bonuses) or contract costs to fulfill a contract which would be eligible for capitalisation under IFRS 15. However, there will be new revenue disclosures that Altia will report under the new guidance.

Altia adopts the standard on 1 January 2018 using the modified retrospective method which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018):

Altia has reviewed its treasury policy and hedging activities and the classification and measurement of its financial assets and liabilities as part of its implementation of IFRS 9 Financial Instruments and is expecting the following impact from the adoption of the new standard on 1 January 2018. As disclosed below, the initial application of IFRS 9 is not expected to have a material impact on Altia's financial statements due to the nature of Altia's financial instruments and risk management policies.

Classification and measurement
IFRS 9 requires that all financial assets are subsequently measured at amortised cost, FVOCI or FVPL based on the business model for managing the financial assets and their contractual cash flow characteristics.

The financial assets held by the Group include the following:

- Altia has joint control over Roal Oy but the option right held by the other shareholder represents in substance a receivable. This debt receivable due to the nature of the agreement is currently classified as fair value through profit and loss and accordingly, it will continue to be classified as FVPL following the adoption of IFRS 9.
- Other receivables comprise solely of a deferred consideration receivable relating to a real estate that Altia sold in 2017. This receivable will be classified as hold to collect as the cash flows from the receivable comprises solely of payments of principal and interest.
- Accounts receivables currently classified as held-to-maturity and measured at amortised cost meet the conditions for classification at amortised cost under IFRS 9.
- Altia's current available-for-sale financial assets comprising of equity investments will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The derecognition rules under IFRS 9 are a continuum of the provisions of IAS 39 Financial Instruments: Recognition and Measurement. Altia's factoring process is on a non-recourse basis i.e. all rights related to the sold account receivables are transferred to the buyer. The derecognition criteria of IAS 39 continue to be fulfilled under IFRS 9. Accordingly, Altia does not expect the new guidance to affect the classification and measurement of these financial assets.

Impairment
The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than on an incurred credit loss basis as was the case under IAS 39.

The new impairment model requirement applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new impairment model will result in earlier recognition of losses. Based on the assessments Altia has undertaken to implement an ECL model, the impact of applying IFRS 9 is considered insignificant.

Altia's available-for-sale assets are measured at fair value and the fair value of these assets is not significant. As described above, other receivables consisting of a purchase price receivable with contractual cash flows and Altia expects to collect the cash flows in full on this item as payments of principal and interest have been made in the agreed payment schedule.

The loss allowance for account receivables is based on the aging of the accounts receivable and regional portfolios. Receivables more than 120 days due will be impaired with a 50% expected loss rate. The receivables of the monopolies in Finland and Sweden are excluded due to the nature of the customer and related credit risk (government entities). Forward-looking macro-economic information has been included in the analysis.

Based on the assessments undertaken to date, two-year historical bad debts have amounted to approximately EUR 0.2 million per annum. The bad debt provision for trade receivables on the balance sheet date amounts to approximately EUR 0.3 million whereas the estimated provision under the ECL model is approximately EUR 0.2 million. Accordingly, the adoption of the ECL model will effectively result in a decrease in the loss provision. Altia will adjust the opening balance of its retained earnings for the impact, however the overall impact from the implementation of the new ECL model impact is considered to be immaterial due to the nature of Altia's receivables and customer portfolio.

Financial liabilities

Adoption of IFRS 9 will not have an impact on Altia's classification and measurement of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Altia does not have such liabilities.

Debt modification

Under IFRS 9 when a financial liability measured at amortised cost is modified without the transaction resulting in a derecognition event, a gain or loss should be recognised directly in profit or loss. These modified rules do not have an impact for Altia as it has not changed the terms and conditions for any existing borrowings that would have resulted in modification accounting under IAS 39.

Hedge accounting

The new hedge accounting rules will align the accounting for the hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The group applies hedge accounting for certain interest rate, foreign currency and electricity derivatives. The group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

For cash flow foreign currency hedges under IFRS 9, Altia will designate the full fair value of the forward contract to the hedge relationship and accordingly, will no longer bifurcate the forward points for separate recognition through the P/L. This is a change Altia has selected at the adoption date, however, the effect is considered to be insignificant.

IFRS 9 allows hedging a component of the risk. This change will increase the effectiveness of the electricity hedges. The fair value of the electricity hedges as of 31.12.2017 was EUR 0.3 million with no material ineffectiveness.

The interest rate swaps hedge the floating rate borrowings and the current hedge relationships continue under IFRS 9 with no change.

Disclosures

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of Altia's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019):

IFRS 16 Leases is effective on 1 January 2019 and the new standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The new lease standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for the majority of Altia's lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest cost and depreciation, so our key metrics like EBITDA will change.

Operating cash flows presented in the cash flow statement will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflect interest cost will continue to be presented as operating cash flows.

Based on Altia's preliminary impact assessment, the implementation of IFRS 16 will increase the property, plant and equipment in its balance sheet, mainly due to current operating leases of premises, warehouses, cars and forklifts (see more information on operating leases in Note 1.6.). Altia does not expect the impact to be material due to the nature and a moderate number of off-balance sheet leases. At the 31 December 2017, the off-balance sheet lease obligations amount to EUR 17.1 million. In the consolidated income statement, the operating expense will decrease, while depreciation and interest costs will reflect an increase as the lease expense is no longer classified as an operating expense. This will lead to an improvement in EBITDA. The Group is in the process of assessing its lease portfolio and quantifying the impact of adopting IFRS 16 and will continue to report on the expected impact in its financial reports.

Altia expects to implement the standard by using a simplified approach (modified retrospective approach), where comparative figures will not be restated. Altia will recognise the accumulated effect of adopting IFRS 16 as an adjustment to equity at the beginning of 2019. Furthermore, Altia expects to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value leases.

Other forthcoming amendments to IFRS standards and IFRIC interpretations that the Group is aware of are not assessed to have a material impact on Altia's consolidated financial statements.

6.5. CORRECTIONS TO PRIOR PERIODS

Accounting for an interest in a joint operation

In 2017, Altia has taken a detailed review of its shareholder agreement with ABF Overseas Limited ("ABF") regarding Altia's interest in Roal Oy in order to confirm the IFRS accounting treatment in Altia's consolidated financial statements. Pursuant to the terms and conditions of the shareholder agreement, Altia is entitled to an agreed annual return for its interest in Roal Oy as minimum dividend, and ABF has a right to redeem Altia's interest in Roal Oy at a fixed amount at the expiry of certain patents. In its consolidated financial statements, Altia had accounted for its interest in Roal Oy as a joint venture pursuant to IFRS 11 applying the equity method of accounting up until the fourth quarter of 2016 when Altia classified the interest as a held for sale asset, assuming that ABF would have exercised its call option during 2017. However, as the exercise of the call is dependent on the expiry of certain patents and a single patent continues to be valid until 2024, Altia's exit from Roal Oy could not take place in 2017. Altia exercises joint control over Roal Oy. However, accounting treatment of the option right held by ABF represents in substance a receivable with a fixed rate of return for Altia, and Altia does not have a right to 50 per cent of the net assets of Roal Oy unless ABF refrains to exercise its option right with respect to Altia's interest in Roal Oy when it is possible pursuant to the shareholder agreement. Accordingly, the interest should have been classified as a joint operation pursuant to IFRS 11 in the consolidated financial statements with Altia accounting for its share of Roal Oy's assets and liabilities as a receivable with the annual minimum dividend accounted for as interest income. The correction did not have impact on the net cash flows from operating activities or the net cash flows from investing activities.

In addition, Altia has reclassified certain trade and other payables to current and non-current provisions to better reflect the nature of such liabilities.

These corrections has been made by restating each of the affected financial statement line items for the prior periods as follows:

CONSOLIDATED BALANCE SHEET

	As at 31 Dec 2016			As at 31 Dec 2015		
EUR million	**Reported**	**Adjustments**	**Restated**	**Reported**	**Adjustments**	**Restated**
Investments in associates and interests in joint operations	-	7.6	7.6	14.9	-7.3	7.6
Total non-current assets	**195.6**	**7.6**	**203.1**	**226.5**	**-7.3**	**219.2**
Non-current assets held for sale	13.4	-13.4	0.0	-	-	-
TOTAL ASSETS	**438.6**	**-5.9**	**432.7**	**466.7**	**-7.3**	**459.3**
Retained earnings	145.4	-0.9	144.5	121.7	-2.4	119.3
Total equity	**192.2**	**-0.9**	**191.3**	**171.0**	**-2.4**	**168.6**
Other liabilities	-	-	-	4.9	-4.9	0.0
Provisions	-	-	-	-	1.3	1.3
Total non-current liabilities	**87.4**	**-**	**87.4**	**138.1**	**-3.6**	**134.5**
Trade and other payables	144.1	-1.3	142.7	147.0	-3.4	143.5
Provisions	-	1.3	1.3	-	2.1	2.1
Total current liabilities	**154.1**	**0.0**	**154.1**	**157.6**	**-1.3**	**156.3**
Liabilities related to assets held for sale	4.9	-4.9	0.0	-	-	-
Total liabilities	**246.4**	**-4.9**	**241.5**	**295.7**	**-4.9**	**290.7**
TOTAL EQUITY AND LIABILITIES	**438.6**	**-5.9**	**432.7**	**466.7**	**-7.3**	**459.3**

	As at 1 Jan 2015		
EUR million	**Reported**	**Adjustments**	**Restated**
Investments in associates and interests in joint operations	12.1	-4.5	7.6
Total non-current assets	**229.2**	**-4.5**	**224.7**
TOTAL ASSETS	**501.5**	**-4.5**	**496.9**
Retained earnings	95.0	0.4	95.5
Total equity	**143.9**	**0.4**	**144.3**
Other liabilities	4.9	-4.9	0.0
Total non-current liabilities	**121.8**	**-4.9**	**116.9**
Total liabilities	**357.6**	**-4.9**	**352.6**
TOTAL EQUITY AND LIABILITIES	**501.5**	**-4.5**	**496.9**

CONSOLIDATED INCOME STATEMENT

EUR million	1 January - 31 December 2016 Reported	Adjustments	Restated	1 January - 31 December 2015 Reported	Adjustments	Restated
Operating result	**46.3**	**-**	**46.3**	**25.3**	**-**	**25.3**
Share of profit in associates and income from interests in joint operations	-0.6	1.5	0.9	3.8	-2.9	0.9
Result before taxes	**43.5**	**1.5**	**45.0**	**26.3**	**-2.9**	**23.4**
RESULT FOR THE PERIOD	**34.6**	**1.5**	**36.1**	**21.0**	**-2.9**	**18.1**
Earnings per share (EUR), basic and diluted	**0.96**	**0.04**	**1.00**	**0.58**	**-0.08**	**0.50**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	1 January - 31 December 2016 Reported	Adjustments	Restated	1 January - 31 December 2015 Reported	Adjustments	Restated
Result for the period	34.6	1.5	36.1	21.0	-2.9	18.1
Other comprehensive income:						
Share of profit in associates and income from interests in joint operations	0.0	-0.0	0.0	-0.1	0.1	0.0
Translation differences	-2.7	-0.0	-2.7	1.5	0.0	1.5
Other changes	-0.0	0.0	0.0	0.0	-0.0	0.0
Other comprehensive income for the period	**-2.9**	**-0.0**	**-3.0**	**6.1**	**0.1**	**6.1**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**31.6**	**1.5**	**33.1**	**27.1**	**-2.8**	**24.3**

Cash flow statement presentation

In 2017 Altia decided to change its presentation of the consolidated statement of cash flows from direct method to indirect method. Altia believes that the indirect method gives more accurate and reliable information on cash flows from operating activities by disclosing the reconciliation from result before taxes to operating cash flows. The indirect method is also more commonly used method and thus, gives more comparable information on Altia's operating cash flows to it's peers.

As a consequence, the presentation of cash flows from operating activities has been restated to reflect the indirect method for the years ended 31 December 2016 and 2015. The indirect method did not change the presentation of the cash flows from investing activities and financing activities.

6.6. EVENTS AFTER THE REPORTING PERIOD

Altia and J. García Carrión have entered into a collaboration regarding the import and distribution of J. García Carrión's wine brands. Altia becomes the exclusive representative of García Carrión's wine portfolio in Sweden as of 2018.

Following the decision by the Extraordinary General Meeting on 15 December 2017, Altia's shares were incorporated in the book-entry securities system on 19 January 2018.

Parent Company Financial Statements

ALTIA PLC INCOME STATEMENT (FAS)

EUR million	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
NET SALES	1.	**201.2**	**189.6**
Increase (+) / decrease (–) in inventories of finished goods and work in progress		-0.2	-0.4
Other operating income	2.	20.5	22.5
Materials and services			
Raw materials, consumables and goods			
Purchases during the period		-117.0	-106.7
Change in inventories		-1.9	-3.4
External services		-0.1	-0.1
Total materials and services		**-119.1**	**-110.1**
Personnel expenses	3.		
Wages and salaries		-24.9	-24.6
Indirect employee expenses			
Pension expenses		-4.5	-8.8
Other indirect employee expenses		-1.5	-1.6
Total personnel expenses		**-30.9**	**-35.0**
Depreciation, amortisation and impairment losses			
Depreciation and amortisation according to plan		-11.2	-11.1
Impairment loss on non-current assets		-	-2.1
Total depreciation, amortisation and impairment losses		**-11.2**	**-13.2**
Other operating expenses	4.	-48.6	-45.4
OPERATING RESULT		**11.7**	**8.0**

EUR million	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Finance income and expenses	5.		
Income from Group companies		16.6	5.4
Income from participating interests		0.9	0.9
Income from other investments held as non-current assets			
From others		0.2	0.1
Other interest and finance income			
From Group companies		0.5	1.0
From others than Group companies		4.3	1.1
Interest and other finance expenses			
To Group companies		-0.1	-0.1
To others than Group companies		-6.2	-2.6
Total finance income and expenses		**16.1**	**5.8**
RESULT BEFORE APPROPRIATIONS AND TAXES		**27.8**	**13.8**
Appropriations	6.		
Depreciation difference increase (–) /decrease (+)		0.9	-2.2
Income tax expense	7.		
Current period taxes		-2.2	-1.5
Change in deferred tax asset		-0.0	-0.1
Other direct taxes		0.0	0.0
Total income taxes		**-2.2**	**-1.5**
RESULT FOR THE PERIOD		**26.5**	**10.1**

ALTIA PLC BALANCE SHEET (FAS)

EUR million	Note	31 Dec 2017	31 Dec 2016
ASSETS			
NON-CURRENT ASSETS	8.		
Intangible assets			
Intangible rights		12.6	12.7
Other capitalised long-term expenditure		9.3	12.6
Prepayments		2.8	1.7
Intangible assets total		**24.7**	**26.9**
Tangible assets			
Land and water areas		2.5	2.5
Buildings and structures		23.0	23.4
Machinery and equipment		25.0	26.6
Other tangible assets		0.5	0.5
Prepayments and assets under construction		4.7	2.1
Tangible assets total		**55.6**	**55.1**
Investments			
Holdings in Group companies		206.8	206.8
Participating interests		8.0	8.0
Other shares and investments		0.8	0.8
Investments total		**215.7**	**215.7**
TOTAL NON-CURRENT ASSETS		**296.0**	**297.7**

EUR million	Note	31 Dec 2017	31 Dec 2016
CURRENT ASSETS			
Inventories	9.		
Materials and supplies		16.5	18.4
Work in progress		12.5	12.1
Finished goods		9.5	10.1
Inventories total		**38.5**	**40.6**
Non-current receivables	10.		
Receivables from Group companies		17.8	18.2
Deferred tax assets		0.5	0.7
Other receivables		-	0.3
Non-current receivables total		**18.3**	**19.2**
Current receivables	11.		
Trade receivables		20.1	21.8
Receivables from Group companies		9.8	14.2
Receivables from participating interest under-takings		0.2	0.0
Accrued income and prepaid expenses		2.8	2.9
Current receivables total		**32.9**	**38.9**
Cash at hand and in banks		49.4	64.0
TOTAL CURRENT ASSETS		**139.1**	**162.7**
TOTAL ASSETS		**435.1**	**460.4**

ALTIA PLC BALANCE SHEET (FAS)

EUR million	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Equity	13.		
Share capital		60.5	60.5
Hedge reserve		-0.4	-1.3
Retained earnings		30.2	90.6
Profit for the period		26.5	10.1
TOTAL EQUITY		**116.9**	**159.9**
Appropriations	14.		
Depreciation difference		22.6	23.5
Liabilities			
Non-current	15.		
Loans from financial institutions		74.3	65.0
Loans from pension institutions		15.0	-
Liabilities to Group companies		2.3	3.3
Other liabilities		4.9	4.9
Non-current liabilities total		**96.5**	**73.2**
Current			
Loans from financial institutions		10.0	7.5
Loans from pension institutions		0.8	-
Trade payables		12.4	12.4
Liabilities to Group companies	16.	118.8	127.8
Other liabilities		38.8	40.3
Accrued expenses and deferred income	17.	18.6	15.7
Current liabilities total		**199.2**	**203.8**
TOTAL LIABILITIES		**295.7**	**277.0**
TOTAL EQUITY AND LIABILITIES		**435.1**	**460.4**

ALTIA PLC STATEMENT OF CASH FLOWS (FAS)

EUR million	Note	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016
CASH FLOW FROM OPERATING ACTIVITIES			
Result before taxes		28.8	11.6
Adjustments			
Depreciation, amortisation and impairment		11.2	13.2
Gain/loss from disposal of property, plant and equipment and intangible assets		-0.2	-4.2
Finance income and costs		-16.1	-5.8
Change in depreciation difference		-0.9	2.2
Other adjustments		0.1	-0.4
		-5.9	5.1
Change in working capital			
Change in inventories, increase (-) / decrease (+)		2.1	3.8
Change in trade and other receivables, increase (-) / decrease (+)		5.2	-5.4
Change in trade and other payables, increase (+) / decrease (-)		-4.8	-3.2
Change in working capital		2.6	-4.9
Interest paid		-1.8	-1.5
Interest received		1.0	1.1
Other finance income and expenses paid		-0.9	-0.5
Income taxes paid		-0.5	-2.0
Financial items and taxes		-2.3	-2.9
NET CASH FLOW FROM OPERATING ACTIVITIES		**23.2**	**8.9**
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		-9.7	-6.1
Proceeds from sale of property, plant and equipment and intangible assets	2.	0.2	4.5
Loans granted		-	-1.3
Payments for other investments		-	-2.5
Proceeds from other investments		0.0	-
Repayment of loan receivables		0.7	3.4
Dividends received	5.	17.7	6.4
NET CASH FLOW FROM INVESTING ACTIVITIES		**8.8**	**4.4**

EUR million	Note	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from current borrowings	16.	30.7	45.7
Repayment of current borrowings	16.	-23.3	-34.0
Proceeds from non-current borrowings		90.0	-
Repayment of non-current borrowings	15.	-73.5	-22.5
Dividends paid and other distributions of profits	13.	-70.5	-10.4
NET CASH FLOW FROM FINANCING ACTIVITIES		**-46.6**	**-21.3**
CHANGE IN CASH AND CASH EQUIVALENTS		-14.6	-8.1
Cash and cash equivalents at the beginning of the period		64.0	72.1
Change in cash and cash equivalents		-14.6	-8.1
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**49.4**	**64.0**

Notes to Altia Plc financial statements

Accounting policies for financial statements

The financial statements of the parent company are prepared in accordance with the Finnish accounting legislation.

Non-current assets and depreciations

Non-current assets are recognised in the balance sheet at acquisition cost less depreciations. The depreciation periods for non-current assets are:

Trademarks 10–15 years
IT- development and software 3–5 years
Buildings and structures 10–40 years
Machinery and equipment 10 years
Other tangible assets 3–10 years

Inventories

Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices, except cognac products, which are measured at weighted average cos. Fixed production costs are allocated to the cost of own production. Raw materials, supplies and trading goods are measured at weighted average cost. Repacked trading goods are measured at standars cost in repacking plant.

The cost of finished products and work in progress includes raw materials, direct labour costs, other direct costs as well as an allocable proportion of variable procurement and production costs and fixed overheads in case of finished products, determined based on normal operating capacity. Net realisable value is the estimated selling price in the ordianary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Pension plans

The pension plans of the parent company are arranged through pension insurance companies. Pension expenses are accrued to correspond to the performance-based salaries in the financial statements.

Cash Pool

The Group has applied the so called cash pool arrangement, which enables efficient management of the parent company's and subsidiaries' cash and cash equivalents.

Leases

All lease payments are recognised as rental expenses.

Financial Derivatives

Fair value measurement compliant with Chapter 5, section 2 a of the Accounting Act is applied to the accounting treatment of financial derivatives.

Derivatives are included in financial assets and liabilities at fair value through profit or loss when they do not meet the criteria of hedge accounting. These derivatives are recognised at fair value on the trade date and they are subsequently measured at fair value at the reporting date. The fair values of derivatives equal the amount that Altia Oyj would have to pay or it would receive from the termination of the derivative contract at the reporting date. The fair values of forward exchange contracts are determined by using the market prices at the reporting date. The fair values of interest rate derivatives are determined by discounting the related future cash flows. The valuation of commodity derivatives is determined based on the fair values received from the financial markets. received from the financial markets.

All derivatives for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy level 1–3. The levels 1–3 of fair value hierarchy reflect the significance of inputs used in determining the fair values. In level one, fair values are based on public quotations of identical financial instruments. In level two, the inputs used in determining the fair values are based on quoted market rates and prices observable for the asset or liability in question directly (i.e. price) or indirectly on discounted future cash flows. Fair values of other financial assets and liabilities in level two reflect their carrying value. In level three, the fair values of assets and liabilities are based on inputs that are not based on observable market data for all significant variables,and instead are, to a significant extent, based on management estimates and their use in generally accepted valuation techniques.

The fair values of the financial instuments are determined by using the market prices on the closing date of the reporting period.

Hedge accounting

The parent company applies hedge accounting when the change in fair value is recognised in the hedge reserve under equity. In Altia Oyj, cash flow hedging is applied to part of the interest rate, foreign currency and electricity derivatives based on case-by-case assessment. In cash flow hedging, Altia Oyj is hedging against changes in cash flows related to a specific asset or liability recognised in the balance sheet or to a highly probable future business transaction. In the beginning of the hedging arrangement, company documents the relationship between each hedging instrument and hedged item, as well as the objectives of risk management and the strategy in engaging in hedging. The effectiveness of hedging instruments is tested both prospectively and retrospectively. Effectiveness means the ability of a hedging instrument to offset the changes in the fair value of the hedged item or changes in the cash flows of the hedged transaction attributable to the hedged risk.

The hedging relationship is regarded to be highly effective if the realised results of the hedging instrument offset the changes in the cash flows of the hedged item by 80–125 percent. Hedge accounting is discontinued when the criteria for hedge accounting is no longer met. The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied, are presented in congruence with the hedged item. The effective portion of the unrealised changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in the hedge reserve in equity. The ineffective portion is immediately recognised in profit or loss. The cumulative gain or loss in equity on derivative instruments related to commercial items is recognised in profit or loss as an adjustment to purchases or sales simultaneously with the hedged item in the period in which the hedged item affects profit or loss. Realised gain or loss on electricity derivatives is included in operating result in electricity procurement expenses. When a hedging instrument designated as a cash flow hedge expires, is sold or no longer meets the criteria of hedge accounting, the gain or loss accumulated in equity is recognised through profit or loss.

Research and development expenditure

Research and development expenditure is recognised as an annual expense as incurred.

Financial securities

Financial securities are recognised at acquistion cost or lower.

Receivables

Receivables are measured at acquisition cost or probable value, if lower.

Sale of trade receivables

The sold receivables are derecognised when the receivable has been sold and the sales price for it has been received. The related costs are recognised in other financial expenses.

Non-current financial liabilities

Non-current financial liabilities are recognised at acquisition cost.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish taxprovisions, adjustments to taxes in previous financial years and the change in deferred taxes.

Foreign currency denominated items

Foreign currency denominated receivables and liabilities are translated to Finnish currency at the rates of the closing date of the reporting period.

1. NET SALES

EUR million	2017	2016
Net sales by business areas		
Alcohol beverages	103.3	95.7
Industrial services	95.5	88.8
Other	2.4	5.1
TOTAL	**201.2**	**189.6**
Net sales by geographic areas		
Finland	153.1	143.3
Europe	46.3	45.5
Rest of the world	1.8	0.8
TOTAL	**201.2**	**189.6**

2. OTHER OPERATING INCOME

EUR million	2017	2016
Rental income	1.0	0.9
Income from energy sales	3.4	3.7
Proceeds from disposal of non-current assets	0.2	4.2
Service income	14.4	12.0
Other income	1.6	1.7
TOTAL	**20.5**	**22.5**

3. NOTES RELATED TO PERSONNEL

EUR million	2017	2016
Wages and salaries	24.9	24.6
Pension expenses	4.5	8.8
Other social expenses	1.5	1.6
TOTAL	**30.9**	**35.0**

Personnel expenses 2016 include a lump-sum compensation related to supplementary pensions amounting to EUR 4.1 million. Altia's Board of Directors decided that instead of the increase based on the employee pension index, the supplementary pensions will be increased by 4.5% on 1 January 2017, and after this lump-sum compensation the pensions will be increased in accordance with the increase decision made annually by the insurance company. More information about this is in Group Note 2.5.

EUR million	2017	2016
Fringe benefits (taxable value)	0.7	0.8

The average number of personnel during the reporting period	2017	2016
Workers	212	229
Clerical employees	223	231
TOTAL	**435**	**460**

Management remuneration, EUR million	2017	2016
CEO	0.6	0.4
Board members	0.2	0.2

Pension commitments of the Board and CEO

The retirement age of the CEO of the company is 63 years.

4. OTHER OPERATING EXPENSES

EUR million	2017	2016
Rental expenses	2.2	2.8
Marketing expenses	6.1	5.4
Energy expenses	6.9	8.9
Travel and representation expenses	1.1	1.1
Repair and maintenance expenses	5.9	5.2
IT expenses	6.1	4.7
Outsourcing services	5.5	3.8
Variable sales expenses	5.2	4.9
Other expenses	9.5	8.7
TOTAL	**48.6**	**45.4**
Auditor's fees		
Audit fees	0.1	0.1
Tax consultation	0.0	0.0
Other fees	0.4	0.0
TOTAL	**0.5**	**0.1**

Environmental expenses

The Company's environmental expenses did not have a significant impact on the result for the period and on the financial position.

5. FINANCE INCOME AND EXPENSES

EUR million	2017	2016
Dividend income		
From Group companies	16.6	5.4
From participating interest undertakings	0.9	0.9
From others	0.2	0.1
Total dividend income	**17.7**	**6.4**
Interest income		
From Group companies	0.5	1.0
From others	0.3	0.2
Total interest income	**0.7**	**1.3**
Other finance income		
From others	4.0	0.9
Total other finance income	**4.0**	**0.9**
TOTAL FINANCE INCOME	**22.4**	**8.5**
Interest expenses		
To others	1.3	1.4
Total interest expenses	**1.5**	**1.5**
Other finance expenses		
To others	4.9	1.2
Total other finance expenses	**4.9**	**1.2**
TOTAL FINANCE EXPENSE	**6.3**	**2.7**
TOTAL FINANCE INCOME AND EXPENSES	**16.1**	**5.8**

The following items are included in finance items of the income statement from cash flow hedges:

Other finance income		
Fair value changes of derivatives	0.2	0.6
Other finance expenses		
Fair value changes of derivatives	-0.1	0.1

6. APPROPRIATIONS

EUR million	2017	2016
Difference between depreciations according to plan and depreciations made in taxation		
Intangible rights	0.0	-0.5
Other intangible assets	-0.1	-0.0
Buildings and structures	0.6	0.4
Machinery and equipment	0.5	-2.1
Other tangible assets	-0.0	-0.0
TOTAL	**0.9**	**-2.2**

7. INCOME TAX EXPENSE

EUR million	2017	2016
Income taxes from current period	-2.2	-1.5
Income taxes from previous periods	0.0	0.0
Change in deferred tax assets	-0.0	-0.1
TOTAL	**-2.2**	**-1.5**

8. SPECIFICATION OF NON-CURRENT ASSETS

EUR million	2017	2016
Intangible assets		
Intangible rights		
Acquisition cost at 1 January	27.7	22.9
Additions	1.7	6.0
Disposals	-0.4	-1.9
Transfers between items	1.1	0.7
Acquisition cost at 31 December	**30.1**	**27.7**
Accumulated amortisation at 1 January	-15.1	-14.1
Accumulated amortisation on disposals and transfers	0.4	1.4
Amortisation for the period	-2.8	-2.3
Accumulated amortisation at 31 December	-17.5	-15.1
CARRYING AMOUNT AT 31 DECEMBER	**12.6**	**12.7**
Goodwill		
Acquisition cost at 1 January	17.6	17.6
Acquisition cost at 31 December	17.6	17.6
Accumulated amortisation at 1 January	-17.6	-17.6
Accumulated amortisation at 31 December	-17.6	-17.6
CARRYING AMOUNT AT 31 DECEMBER	**-**	**-**
Other intangible assets		
Acquisition cost at 1 January	27.5	28.1
Additions	-1.3	-0.3
Disposals	-	-0.7
Transfers between items	-1.8	0.4
Acquisition cost at 31 December	24.3	27.5
Accumulated amortisation at 1 January	-14.9	-13.7
Accumulated amortisation on disposals and transfers	1.5	0.6
Amortisation for the period	-1.6	-1.9
Accumulated amortisation at 31 December	-15.0	-14.9
CARRYING AMOUNT AT 31 DECEMBER	**9.3**	**12.6**
Prepayments in intangible assets		
Acquisition cost at 1 January	1.7	0.9
Additions	2.1	1.7
Disposals	-	-0.2
Transfers between items	-1.0	-0.7
CARRYING AMOUNT AT 31 DECEMBER	**2.8**	**1.7**

EUR million	2017	2016
Tangible assets		
Land and water areas		
Acquisition cost at 1 January	2.5	2.5
Disposals	-0.0	-0.0
CARRYING AMOUNT AT 31 DECEMBER	**2.5**	**2.5**
Buildings and structures		
Acquisition cost at 1 January	94.2	95.3
Additions	1.4	0.5
Transfers between items	0.8	0.2
Disposals	-1.7	-1.7
Acquisition cost at 31 December	**94.8**	**94.2**
Accumulated depreciation at 1 January	-70.8	-69.8
Accumulated depreciation on disposals and transfers	1.6	1.6
Depreciation for the period	-2.6	-2.6
Accumulated depreciation at 31 December	-71.8	-70.8
CARRYING AMOUNT AT 31 DECEMBER	**23.0**	**23.4**
Machinery and equipment		
Acquisition cost at 1 January	106.4	136.0
Additions	1.1	1.4
Disposals	-0.4	-33.3
Transfers between items	3.0	2.3
Acquisition cost at 31 December	**110.1**	**106.4**
Accumulated depreciation at 1 January	-79.8	-108.5
Accumulated depreciation on disposals and transfers	-1.1	33.0
Depreciation for the period	-4.2	-4.3
Accumulated depreciation at 31 December	-85.1	-79.8
CARRYING AMOUNT AT 31 DECEMBER	**25.0**	**26.6**
Other tangible assets		
Acquisition cost at 1 January	0.5	0.5
Acquisition cost at 31 December	0.5	0.5
CARRYING AMOUNT AT 31 DECEMBER	**0.5**	**0.5**
Prepayments and assets under construction		
Acquisition cost at 1 January	2.1	2.9
Additions	4.7	2.0
Transfers between items	-2.0	-2.8
CARRYING AMOUNT AT 31 DECEMBER	**4.7**	**2.1**
CARRYING AMOUNT OF MACHINERY AND EQUIPMENT USED IN PRODUCTION AT 31 DECEMBER	**24.2**	**25.6**

EUR million	2017	2016
Investments		
Holdings in Group companies		
Acquisition cost at 1 January	358.3	345.8
Additions	-	12.5
Acquisition cost at 31 December	358.3	358.3
Accumulated impairment at 1 January	-151.5	-149.4
Impairment	-	-2.1
Accumulated impairment at 31 December	-151.5	-151.5
CARRYING AMOUNT AT 31 DECEMBER	**206.8**	**206.8**
Participating interests		
Acquisition cost at 1 January	8.0	8.0
CARRYING AMOUNT AT 31 DECEMBER	**8.0**	**8.0**
Other shares and investments		
Acquisition cost at 1 January	0.8	0.8
Additions	-	0.0
Disposals	-0.0	-
CARRYING AMOUNT AT 31 DECEMBER	**0.8**	**0.8**

9. INVENTORY

There is no significant difference between the repurchase price and cost of inventories.

10. NON-CURRENT RECEIVABLES

EUR million	2017	2016
Receivables from Group companies		
Loan receivables	17.8	18.2
Deferred tax assets		
Recognised in hedge reserve	0.1	0.3
Fixed assets deferred depreciations	0.4	0.4
Deferred tax assets total	0.5	0.7
Other receivables		
Capital loan receivable	-	0.3
TOTAL NON-CURRENT RECEIVABLES	**18.3**	**19.2**

11. CURRENT RECEIVABLES

EUR million	2017	2016
Receivables from Group companies		
Trade receivables	3.0	7.1
Cash Pool receivables	-	0.3
Other receivables	5.0	4.9
Derivatives	0.0	0.3
Accrued income and prepaid expenses	1.8	1.6
Total	**9.8**	**14.2**
Receivables from participating interest undertakings		
Trade receivables	0.2	0.0
Total	**0.2**	**0.0**
Receivables from others		
Trade receivables*	20.1	21.8
Accrued income and prepaid expenses	2.8	2.9
Total	**22.9**	**24.7**
TOTAL CURRENT RECEIVABLES	**32.9**	**38.9**

Accrued income and prepaid expenses

Significant items in accrued income and prepaid expenses:

Derivatives	1.1	0.7
Taxes	-	0.9
Others	1.7	1.3
Total	**2.8**	**2.9**

*Does not include the sold trade receivables

12. DISCLOSURES ON FAIR VALUES (DERIVATIVES)

	2017			2016		
EUR million	Fair value 31 Dec	Changes in the fair value recognised in the income statement	Changes in the fair value recognised in fair value reserve	Fair value 31 Dec	Changes in the fair value recognised in the income statement	Changes in the fair value recognised in fair value reserve
Derivative instruments						
Interest rate derivatives (level 2)	-1.4	-	-1.4	-1.9	-	-1.9
Foreign exchange derivatives (level 2)	0.9	0.2	0.7	0.5	0.6	-0.1
Commodity derivatives (level 2)	0.3	-0.1	0.3	0.0	-0.1	0.1
TOTAL	**-0.2**	**0.2**	**-0.4**	**-1.3**	**0.5**	**-1.8**

13. EQUITY

EUR million	2017	2016
Restricted equity		
Share capital at 1 January	60.5	60.5
Share capital at 31 December	**60.5**	**60.5**
Hedge reserve at 1 January	-1.3	-1.5
Additions and disposals	0.9	0.2
Hedge reserve at 31 December	**-0.4**	**-1.3**
Total restricted equity	**60.1**	**59.2**
Unrestricted equity		
Retained earnings at 1 January	100.7	101.0
Distribution of dividends	-70.5	-10.4
Profit for the period	26.5	10.1
Total unrestricted equity	**56.8**	**100.7**
TOTAL EQUITY	**116.9**	**159.9**
Distributable unrestricted equity		
Calculation of distributable equity		
Retained earnings	100.7	101.0
Distribution of dividends	-70.5	-10.4
Profit for the period	26.5	10.1
TOTAL DISTRIBUTABLE UNRESTRICTED EQUITY	**56.8**	**100.7**

	2017	2016
Distribution of the company's share capital:		
A series shares pcs	35,960,000	35,960,000
L series shares pcs	-	25,003

A and L shares were combined on 21 December 2017.

14. APPROPRIATIONS

EUR million	2017	2016
Depreciation difference		
Intangible rights	2.4	2.1
Other intangible assets	0.1	0.3
Buildings and structures	4.3	4.8
Machinery and equipment	15.8	16.3
Other tangible assets	-0.0	-0.0
TOTAL	**22.6**	**23.5**

15. LIABILITIES

EUR million	2017	2016
Non-current		
Loans from financial institutions	89.3	65.0
Liabilities to Group companies	2.3	3.3
Other liabilities	4.9	4.9
TOTAL	**96.5**	**73.2**

16. LIABILITIES TO GROUP COMPANIES

EUR million	2017	2016
Trade payables	0.9	0.7
Loans to Group companies	22.3	45.7
Cash Pool liabilities	94.6	74.2
Derivative instruments	0.1	0.1
Other accrued expenses	0.8	7.1
TOTAL	**118.8**	**127.8**

17. ACCRUED EXPENSES AND DEFERRED INCOME

EUR million	2017	2016
Significant items under accrued expenses:		
Holiday pay and other wages and salaries	7.2	7.2
Contract discount	0.5	0.3
Procurement expenses and other accrued expenses	8.6	5.9
Taxes	0.8	-
Derivative instruments	1.5	2.2
TOTAL	**18.6**	**15.7**

18. COLLATERALS AND COMMITMENTS

EUR million	2017	2016
Collaterals given on behalf of the Group companies		
Mortgages	18.5	18.5
Guarantees	6.4	8.0
TOTAL COLLATERALS	**24.9**	**26.5**
Commitments and other contingencies		
Operating and finance lease obligations		
Not later than one year	0,7	0,8
Later than one year	0.8	1.4
Total	**1.5**	**2.2**
Lease obligations		
Not later than one year	0.8	0.8
Later than one year	2.6	3.4
Total	**3.3**	**4.2**
Other obligations		
Not later than one year	4.7	6.7
Total	**4.7**	**6.7**
TOTAL COMMITMENTS	**9.6**	**13.0**

VAT liability for real estate investments

The company is liable to review VAT deductions made for real estate investments completed in 2009–2017 if the use subject to VAT decreases during the review period. The maximum liability is EUR 1.4 million and the last year to review is 2026.

Derivative contracts EUR million	2017	2016
Electricity derivatives		
Fair value	0.3	0.0
Nominal value	2.5	3.0
Amount (TWh)	0.1	0.1
Group's external forward exchange contracts		
Fair value	1.0	0.4
Nominal value	55.0	79.5
Group's internal forward exchange contracts		
Fair value	-0.1	0.1
Nominal value	11.3	19.5
Interest rate derivatives		
Fair value	-1.4	-1.9
Nominal value	20.0	20.0
Emission allowances (kilotons)	**2017**	**2016**
Emission allowances received	27.4	28.0
Excess emission allowances from the previous year	39.2	37.4
Adjustments related to prior year's estimates	-0.0	-0.0
Realised emissions	-21.0	-26.2
EMISSION ALLOWANCES AT 31 DECEMBER	**45.6**	**39.2**
Fair value of the remaining emission allowances	0.4	0.2

The received emission allowances and the realised emission of the year 2017 are estimates which will be adjusted during spring 2018 if necessary. Altia continues to operate within the emission trading system for the trading period 2013-2020.

19. RELATED PARTY TRANSACTIONS

Related party transactions are carried out at market value. More information about related party transactions is presented in Group Note 6.3. Management remuneration is presented in Altia Plc Note 3.

Board of Directors' proposal for the distribution of profits

According to the balance sheet at 31 December 2017, Altia Plc's distributable earnings amount to EUR 56,763,012.27 including profit for the period of EUR 26,547,860.31.

No significant changes have taken place in the financial position of the parent company since the end of the financial period. The liquidity of the company is good and the proposed dividend does not, in the view of the Board of Directors, risk the solvency of the company.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year 2017.

Signatures to the Board of Directors' Report and to the financial statements

Helsinki, 21 February 2018

Sanna Suvanto-Harsaae
chairman

Annikka Hurme

Kim Henriksson

Tiina Lencioni

Torsten Steenholt

Kai Telanne

Pekka Tennilä
CEO

The Auditors`Note

An auditor´s report concerning the performed audit has been given to date.

Helsinki, 23 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Altia Plc

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

What we have audited

We have audited the financial statements of Altia Plc (business identity code 1505555-7) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

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

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

Independence

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

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

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

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

In our opinion

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

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

Helsinki 23 February 2018
PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant (KHT)

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Report by the Board of Directors

Report by the Board of Directors

Altia is a leading Nordic alcoholic beverage brand company operating in the wines and spirits markets in the Nordic countries, Estonia and Latvia. We produce, import, market, sell and distribute both own and partner brand beverages. We also have production in Cognac, France. Further, Altia exports alcoholic beverages to approximately 30 countries.

Altia's financial development in 2018 was challenged by external factors in the operating environment. Increased raw material costs and the negative impact from currencies have driven financial results down.

When excluding the negative impact from currencies, net sales grew by 1.4%. Altia's Nordic core brands such as Koskenkorva Vodka and Larsen Cognac continued to perform at a good level driven by growth in exports. In addition,

KEY RATIOS

	2018	2017	2016
Net sales, EUR million	357.3	359.0	356.6
Comparable EBITDA, EUR million	40.0	42.4	40.8
% of net sales	11.2	11.8	11.5
EBITDA, EUR million	34.0	40.3	60.8*
Comparable operating result, EUR million	25.6	28.2	26.4
% of net sales	7.2	7.8	7.4
Operating result, EUR million	19.7	26.1	46.3
Result for the period, EUR million	15.1	18.3	36.1
Earnings per share, EUR	0.42	0.51	1.00
Net debt / comparable EBITDA	1.2	1.1	0.1
Average number of personnel	718	762	829

*) Year 2016 included a net gain of EUR 16.3 million on settlement of defined pension benefit obligation, which has been considered as an item affecting comparability for the year ended 31 December 2016.

Altia Group's 2018 financial statements are prepared in accordance with IFRS. Comparative information is based on corresponding figures for 2017 (figures in brackets), unless otherwise stated.

the opening of the grocery trade in Finland and Altia's own wine brands, Blossa and Chill Out, performed well.

In the Nordic monopoly markets, volume growth was solid in Sweden and Norway, and the market in Finland declined in 2018. Due to the changes in alcohol legislation and taxation in Finland at the beginning of year 2018, the volumes in the Finnish monopoly market have declined. In total, the three monopoly markets for spirits and wine showed flat volume development during 2018. In these markets, Altia strengthened its market position in wines, but lost slightly in spirits due to partner portfolio changes in Sweden.

Altia Industrial's positive contribution to net sales was driven by the continued good development in industrial products and the completed price increases following the higher barley price.

Market development in 2018

Overall market development on the three Nordic monopoly markets has been flat compared to the previous year. The decline in the Finnish retail monopoly was offset by the growth in the retail monopolies in Sweden and Norway.

In the summer of 2018, the weather conditions were exceptional in the Nordic region with warm and sunny weather starting in early May and continuing through the whole summer. The good weather could be linked with an increased sale of white, sparkling and rosé wines, and on the other hand with lower sales of red wine.

The following table illustrates the trends in the sales of wine and spirits in the retail monopolies in Finland, Sweden and Norway. The figures are based on the sales volumes by litre published by the retail monopolies (Alko, Systembolaget and Vinmonopolet).

DEVELOPMENT OF WINE AND SPIRITS SALES IN THE NORDIC RETAIL MONOPOLIES

% change compared to previous year	2018	2017
Finland, total sales	**-3.3**	**-0.2**
Spirits	-3.6	-0.4
Wine	-3.2	-0.1
Sweden, total sales	**+2.1**	**+0.2**
Spirits	+2.7	+0.9
Wine	+2.0	+0.2
Norway, total sales	**+1.5**	**-1.1**
Spirits	+0.1	-0.9
Wine	+1.7	-1.1

Finland

In 2018, the Finnish retail monopoly's sales volumes of wine and spirits were down by 3.3% in comparison to the previous year.

The spirits category was down by 3.6%. Large volume categories like vodka, blended Scotch whiskey and VS Cognac declined and this could not be offset by growth in the smaller volume categories like gin and Irish and American whiskeys. Wine sales were down by 3.2%. The volumes were weak for red wines, while the development of white and sparkling wines was flat. Rosé wines experienced double-digit growth rates compared to the previous year. The sale of glöggs (mulled wines) decreased and the non-alcoholic category grew.

The Finnish Alcohol Act was changed at the beginning of 2018. The new Alcohol Act allows ethanol-based beverages of up to 5.5 per cent alcohol by volume (ABV) to be sold in grocery stores and the use of spirits brands in the products sold in grocery stores. Alcohol taxation was changed at the beginning of 2018 as follows: for spirits +5%, for wines +13%, and for the other categories between +7.2% and +12.9%. These changes are contributing to the negative development in the Finnish retail monopoly.

The excise duty on alcohol was further increased as of 1 January 2019 as follows: for spirits +2.0%, for wine +3.7% and for beer and cider +2.7% and +2.1% respectively.

Sweden

In 2018, the Swedish retail monopoly's sales volumes of wine and spirits continued to grow by 2.1% in comparison to previous year.

Growth was driven mainly by strong sales over the summer. The spirits category grew by 2.7%, driven by the positive development in sales of gins, other liqueurs (shots), dark rums and other spirits. The wine category grew by 2.0% with sparkling wines growing the fastest followed by rosé and white wines. Red wines continued to decline in favour of lighter varietals. Glögg showed a slightly positive development in the fourth quarter compared to the previous year.

Norway

In 2018, the Norwegian retail monopoly's sales volumes of wine and spirits grew by 1.5% in comparison to the previous year.

This growth was driven by good summer sales and the growth in wine sales. The spirits category is flat at +0.1% with good sales of liqueurs (shots) and gin which balance off the negative development within grape spirits, vodka and other spirits. The wine category grew by 1.7% driven by white, rosé and sparkling wines. Red wines continue to lose shares.

Strategy and financial targets

The core of Altia's strategy is to deliver profitable growth through the five strategic streams:

- Grow Nordic core brands
- Execute a step change in wines
- Strengthen strategic partnerships
- Channel expansion and development
- Fund and enable growth - Efficiency and performance initiatives.

To support the abovementioned organic strategic streams, Altia continues an active brand portfolio management, which includes potential selective acquisitions and/or divestments.

Financial targets

Altia has set the following long-term financial targets:

- Comparable EBITDA margin of 15% in the long-term
- Annual net sales growth of 2 per cent over time (CAGR)
- The target is to keep reported net debt in relation to comparable EBITDA below 2.5x in long-term

Dividend policy

Altia pursues an active dividend policy, and the result of the period not considered necessary to grow and develop the Company will be distributed to the shareholders. According to the dividend policy, the Company targets a dividend pay-out ratio of 60% or above of the result for the period.

Key events in 2018

Initial public offering (IPO)

The IPO of Altia Plc was carried out during March 2018. The IPO included a share sale by the State of Finland and a personnel offering to the permanent employees of Altia in Finland and Sweden.

Growth of Nordic core brands

During 2018, Altia's Nordic core brands have developed well and the positive development of exports plays an important role. The exports of Larsen Cognac to Asia was started at the beginning of the year. For Koskenkorva Vodka Russia is an important market and in the US Altia continues to strengthen distribution. With O.P. Anderson Aquavit Altia is targeting the US market.

Altia has launched innovations under the Nordic core brands. For example, Renault Avec cognac for which an innovative maturation method has been used. Further, launches have been made for Explorer vodka, Xanté liqueur, O.P Anderson Aquavit and Koskenkorva Vodka.

Innovations in wine

During 2018, Altia continued to develop its wine offering by bringing several wine novelties to the Nordic retail monopolies. Among others, an extensive line up of rosé wines to respond to the strong rosé wine trend especially during the summer. The portfolio of sparkling wines was also added with new products such as Amies Amies and the aromatised sparkling Say Blush in Sweden. In the red wine category, Altia launched its own innovation Novellus both in Sweden and Finland. In the glögg category, Altia presented an extensive line up of Blossa glöggs and a new Blossa Annual.

Partner wines representing global wine regions in all categories play an important role in Altia's overall wine portfolio.

New strategic partnerships

During 2018, Altia strengthened its market position on the large Swedish wine market with the addition of a new strategic partner, García Carrión.

In addition, Altia further strengthened its gin portfolio on the Swedish market with the start of collaboration with the award-winning Swedish premium gin producer Hernö Gin.

Channel expansion

In the beginning of 2018, the grocery trade opened up for Altia in Finland. During the year, Altia has proved its innovation capability and presented a extensive line up of new products under its Nordic core brands such as Koskenkorva Vichy and Village series, Leijona and Jaloviina long drinks. The distribution of the new low-alcohol (ABV below 5.5%) grocery trade products has developed well.

Altia continuously develops its digital platforms Viinimaa in Finland and folkofolk in Sweden. Through more focused initiatives and optimised content, the user traffic to the sites has increased.

In May 2018, Altia opened a webshop for Nordic alcoholic beverages on the German market – www.nordicspirits.com.

Financial review

In 2018, Altia's reported net sales amounted to EUR 357.3 (359.0) million, corresponding to a decrease of 0.5%. The impact of the weak SEK and NOK is significant as the net sales in constant currencies grew by 1.4%. The net sales of both the Finland & Exports and the Scandinavia segments in constant currencies were at the same level as last year. Altia Industrial's net sales increased mainly as a result of price increases due to the barley cost push and good volumes in industrial products.

The net sales of spirits declined from last year due to lower volumes in Finland, partner portfolio changes in Sweden and the currency impact. The decline was partly offset by growth in exports and grocery trade in Finland. Despite the good volume development in wine, the net sales declined driven by the currency impact.

NET SALES BY SEGMENT

EUR million	2018	2017	Change, %
Finland & Exports	133.8	133.9	-0.1
Scandinavia	117.7	123.7	-4.9
Altia Industrial	105.8	101.3	4.4
TOTAL	**357.3**	**359.0**	**-0.5**

NET SALES BY PRODUCT CATEGORY

EUR million	2018	2017	Change, %
Spirits	124.0	125.9	-1.5
Wine	122.2	124.7	-2.0
Other beverages	5.3	8.4	-37.2
Industrial products and services	105.8	101.3	4.4
Other	0.0	-1.3	
TOTAL	**357.3**	**359.0**	**-0.5**

In 2018, the comparable EBITDA, i.e. EBITDA excluding items affecting comparability (IAC), was EUR 40.0 (42.4) million, which is 11.2% (11.8%) of net sales. Items affecting comparability totalled EUR -6.0 (-2.1) million out of which EUR 4.6 million relate to the initial public offering of Altia. In addition, restructuring costs from efficiency measures in Finland and Sweden as well as costs related to the closed voluntary pension schemes impact the

COMPARABLE EBITDA BY SEGMENT

EUR million	2018	2017
Finland & Exports	19.2	19.6
Scandinavia	10.1	11.5
Altia Industrial	10.9	12.5
Other	-0.3	-1.1
TOTAL	**40.0**	**42.4**
% net sales	11.2	11.8

ITEMS AFFECTING COMPARABILITY

EUR million	2018	2017
Comparable EBITDA	**40.0**	**42.4**
Net gains or losses from business and assets disposals	0.4	1.3
Cost for closure of business operations and restructurings	-1.1	-1.1
Major corporate projects		
Costs related to the closed voluntary pension scheme	-0.7	
Costs related to a planned stock exchange listing	-4.6	-2.4
Total items affecting comparability	**-6.0**	**-2.1**
EBITDA	**34.0**	**40.3**

IAC amount. Reported EBITDA was EUR 34.0 (40.3) million.

Other operating income amounted to EUR 7.4 (8.3) million, consisting mainly of proceeds of sales of fixed assets of EUR 0.5 (1.6) million; income from the sales of steam, energy and water of EUR 3.4 (3.4) million; and rental income of EUR 1.4 (1.0) million.

Employee benefit expenses totalled EUR 49.9 (52.0) million, including EUR 37.9 (40.4) million in wages and salaries.

Other operating expenses amounted to EUR 73.9 (72.9) million.

Net financial expense amounted to EUR 2.3 (1.9) million. The share of profit in associates and income from interests in joint operations totalled EUR 1.2 (0.9) million.

Taxes for the reporting period were EUR 3.6 (6.7) million which corresponds to an effective tax rate of 19.1% (27.0%). In 2017, the effective tax rate was high due to a re-assessment of deferred tax liability relating to Estonia.

The result for the period amounted to EUR 15.1 (18.3) million, and earnings per share were EUR 0.42 (0.51).

Cash flow, balance sheet and investments

Net cash flow from operations in 2018 totalled EUR 6.5 (37.6) million. The decline in cash flow is driven by the development in working capital, the decline in reported profits including the costs from the IPO and other items reported under items affecting comparability as well as the taxes paid during the financial year. On the working capital side, the receivables increased by EUR 7.4 million driven by the channel expansion in exports and the offering in grocery trade. Especially the impact from the Chinese New Year is visible in the last quarter of the year. Also, the increased overall volumes in the Altia Industrial segment and the higher invoicing at the end of the year for increased barley costs are further boosting the receivables. The EUR 5.5 million increase in inventory is driven mainly by increased purchases of barley at the end of the year due to barley market fluctuations. In addition, extended grocery trade offering, new partner brands as well as the increased volumes in Altia Industrial segment impacted the inventory level. The negative impact from trade and other payables amounted to EUR 4.3 million in the year-end as the payables were not optimised to offset the increased asset levels. Taxes paid during the year were based on a taxable income estimate for the year. The estimate used exceeded the currently expected outcome thus generating a too high cash tax outflow for the year.

In total, the receivables sold amounted to EUR 80.2 (83.6) million at the end of the period.

At the end of the period, the Group's net debt amounted to EUR 47.4 (47.7) million and the reported net debt to comparable EBITDA ratio was 1.2 (1.1). Gearing was 31.6% (34.9%) and equity ratio was 38.4% (34.3%).

The Group's liquidity reserve comprised a revolving credit facility of EUR 60.0 million of which EUR 0.0 (10.0) million was in use as well as an overdraft facility of EUR 10.0 million, which was unused as of 31 December 2018 and 2017. Altia Group's liquidity position was good throughout the review period.

The total in the consolidated balance sheet decreased to EUR 390.4 (398.4) million.

Gross capital expenditure totalled EUR 7.7 (11.9) million. Capital expenditure was primarily related to investments at the Rajamäki plant and the further development of information technology and digital capabilities.

BALANCE SHEET KEY FIGURES

	2018	2017
Reported net debt / comparable EBITDA	1.2	1.1
Borrowings, EUR million	89.4	100.1
Net debt, EUR million	47.4	47.7
Equity ratio, %	38.4	34.3
Gearing, %	31.6	34.9
Capital expenditure, EUR million	-7.7	-11.9
Total assets, EUR million	390.4	398.4

Business review

Finland & Exports

The Finland & Exports segment comprises the import, sale and marketing of wine and spirits, and other beverages in Finland and the Baltics, as well as travel retail and exports.

EUR million	2018	2017	Change, %
Net sales	133.8	133.9	-0.1
Comparable EBITDA	19.2	19.6	-1.9
Comparable EBITDA, % of net sales	14.3	14.6	
Average number of personnel	95	100	

EUR million	2018	2017	Change, %
Spirits	78.1	76.1	2.6
Wine	54.2	56.3	-3.7
Other beverages	1.5	1.3	11.6
Other		0.2	
TOTAL	**133.8**	**133.9**	**-0.1**

In 2018, net sales for the Finland & Exports segment were EUR 133.8 (133.9) million. The positive development in exports of Altia's Nordic core brands and the good development in the Finnish grocery trade have offset the challenges in the segment's other markets. In exports, the opening of the Asian distribution for Larsen Cognac in particular has contributed to its growth. Throughout the year, the spirits and wine volumes of the Finnish retail monopoly have been at a lower level compared to the previous year, which has impacted Altia's monopoly sales of spirits and wine negatively. However, despite of the volume decline, Altia's market shares both in spirits and wine have remained on the same level as last year. The net sales in travel retail and the Baltics continued to decline driven mainly by weak development in sea traffic and Tallinn harbour trade.

In 2018, the comparable EBITDA was EUR 19.2 (19.6) million, which equals a comparable EBITDA margin of 14.3% (14.6%). Profitability has been impacted by the weak monopoly and travel retail sales, but with the cost control of operating expenses the impact has been largely mitigated.

Business events in 2018

Since the beginning of 2018, Altia has launched a good line up of low-alcohol products aimed at the Finnish grocery trade. Products have been launched under Altia's iconic spirits brands, such as Koskenkorva Vichy and Koskenkorva Village series, as well as Jaloviina and Leijona long drinks. The products have been well received and gained a good distribution.

During 2018 Altia brought several novelties to the Finnish retail monopoly both in the spirits and wine segments. These included a new type of cognac, Renault Avec, and a number of rosé wines in the growing rosé wine category.

The digital platform Viinimaa which is Altia's key channel in communicating directly with consumers in Finland, has developed strongly during 2018. The site traffic has increased by over 80% from last year's level because of more focused actions and optimised content. In May, Altia opened a webshop for Nordic alcoholic beverages (www.nordicspirits.com) in Germany. The webshop is an addition to Altia's existing digital platforms, and complements traditional exports channels.

Scandinavia

The Scandinavia segment comprises the import, sale and marketing of wine and spirits, and other beverages in Sweden, Norway and Denmark.

EUR million	2018	2017	Change, %
Net sales	117.7	123.7	-4.9
Comparable EBITDA	10.1	11.5	-12.1
Comparable EBITDA, % of net sales	8.6	9.3	
Average number of personnel	85	86	

EUR million	2018	2017	Change, %
Spirits	45.9	49.8	-7.8
Wine	68.0	68.5	-0.7
Other beverages	3.8	7.0	-45.7
Other		-1.5	
TOTAL	**117.7**	**123.7**	**-4.9**

In 2018, reported net sales for the Scandinavia segment were EUR 117.7 (123.7) million, with a considerable negative impact caused by the weak SEK and NOK. The business has shown a stable development throughout the year and in constant currencies net sales improved by 0.6% compared to the previous year. In Sweden, wine sales have grown as a result of deliveries from a new partner starting in June 2018. Spirits sales in Sweden have declined due to partner portfolio changes. In Norway, spirits sales have continued to develop well.

In 2018, the comparable EBITDA was EUR 10.1 (11.5) million, which equals a comparable EBITDA margin of 8.6% (9.3%). The weak SEK and NOK are the main reason for driving the profitability down and to some extent partner portfolio changes. Cost control of operating expenses has partly compensated for the negative impacts.

Business events in 2018

Altia has actively launched new products in the Swedish retail monopoly throughout the year. For example, in spirits new flavours were launched under Altia's key brands. The Explorer brand was extended with a bag-in-box with two ready-to-drink cocktails, the O.P. Anderson brand was extended with O.P. Björk and the Xanté brand was extended with Xanté Sour.

Altia further strengthened its gin portfolio with the start of collaboration with the award-winning Swedish premium gin producer Hernö Gin.

In wines, Altia's market positions strengthened with the new partner. In addition, Altia's own wine brand, Chill Out was revamped with a new design and packaging.

The digital platform folkofolk, which is Altia's key channel in communicating directly with consumers in Sweden, has developed strongly during 2018. Focusing and aligning the platform and social media channels as well as using efficient data analytics have improved site traffic.

Altia Industrial

The Altia Industrial segment comprises Koskenkorva plant operations and the starch, feed component and technical ethanol businesses, as well as contract manufacturing and logistics services. It also includes supply chain operations, i.e. production and logistics operations in different countries and sourcing.

EUR million	2018	2017	Change, %
Net sales	105.8	101.3	4.4
Comparable EBITDA	10.9	12.5	-12.2
Comparable EBITDA, % of net sales	10.3	12.3	
Average number of personnel	426	452	

In 2018, net sales for the Altia Industrial segment were EUR 105.8 (101.3) million. The increase in net sales is driven by good volume development in the starch and feed component businesses as well as the price increases due to the barley cost push. The demand for technical ethanol has been stable and contract manufacturing volumes were slightly above last year's level.

In 2018, the comparable EBITDA was EUR 10.9 (12.5) million, which equals a comparable EBITDA margin of 10.3% (12.3%).

Production volumes and key projects

During 2018, the Rajamäki alcoholic beverage plant produced 64.7 (63.4) million litres of spirits and wine.

The strong demand of starch has enabled the Koskenkorva plant to run at full capacity throughout the year.

The use of grain at the Koskenkorva plant reached a record high of 211.7 (206.0) million kilos, an increase of 2.8% compared to the previous year mainly driven by higher volumes in starch production. Grain spirits production including technical ethanols was 22.0 (22.9) million kilos, starch production was 68.9 (64.5) million kilos and feed component production was 62.2 (59.8) million kilos.

At the Koskenkorva plant the investment to increase starch capacity was finalised and a new process automation system was taken into use. During 2018, Koskenkorva started to offer Viljatori web-based services to purchase grain. Farmers can monitor Altia's grain purchase offers and close the deals with the web services. Also, the receiving process of grain was digitalised. The time slots for unloading the grain deliveries can be booked 24/7 by the suppliers.

At the Rajamäki alcoholic beverage plant investments to increase efficiencies continued. Installation of new filling equipment for production of wine and low alcohol beverages was completed.

Research and development activities

The Group's direct research and development expenditure amounted to EUR 3.3 (3.4) million and was related to the product development of alcoholic beverages.

Corporate Governance Statement

A separate Corporate Governance Statement has been issued and published in connection with the Board of Directors' Report. The statement is also available on Altia's website at www.altiagroup.com.

General Meetings of Shareholders

Extraordinary General Meeting

The Extraordinary General Meeting of Altia Plc held on 22 February 2018 elected Mr Jukka Ohtola to the Board of Directors of Altia Plc.

Annual General Meeting

The 2018 Annual General Meeting of Altia Plc, convened on 1 March 2018, adopted the financial statements for the financial year 2017. The members of the Board of Directors and the CEO were discharged from liability for the financial year 2017. The Annual General Meeting elected the members of the Board of Directors and the auditor. As proposed by the Board of Directors, the Annual General Meeting decided that no dividend is distributed for the financial year 2017.

Board composition and Board Committees

The Annual General Meeting elected the following members to the Board of Directors:

- Sanna Suvanto-Harsaae, chairman
- Kai Telanne, vice chairman
- Kim Henriksson
- Annikka Hurme
- Tiina Lencioni
- Jukka Ohtola
- Torsten Steenholt

The Board of Directors has assessed the independence of its members. All members of the Board of Directors are independent of the company. Jukka Ohtola holds an office with the Ownership Steering Department of the Prime Minister's Office. All other members of the Board of Directors are independent of the shareholders of the company.

The Board of Directors has two committees, the Audit Committee and the Human Resources Committee. The members of the Audit Committee are Kim Henriksson (chairman), Tiina Lencioni and Sanna Suvanto-Harsaae. The members of the Human Resources Committee are Sanna Suvanto-Harsaae (chairman), Annikka Hurme, Jukka Ohtola and Kai Telanne.

Shareholders' Nomination Board

In October 2018, the Company announced that its three largest registered shareholders have nominated the following representatives to the Shareholders' Nomination Board:

- Jarmo Väisänen, Ownership Steering Department, Prime Minister's Office
- Hanna Kaskela, Varma Mutual Pension Insurance Company
- Annika Ekman, Ilmarinen Mutual Pension Insurance Company

The Nomination Board elected Jarmo Väisänen as its chairman. The chairman of Altia's Board of Directors, Sanna Suvanto-Harsaae acts as an expert in the Nomination Board.

Auditor

Altia Plc's auditor is authorised public accountants PricewaterhouseCoopers Oy, with Ylva Eriksson, APA, as the principal auditor.

Group structure

There were no changes in Group structure during 2018.

Chief Executive Officer and Group Management

In 2018, the Executive Management Team of Altia comprised the following members:

- Pekka Tennilä, CEO
- Janne Halttunen, SVP Scandinavia
- Kari Kilpinen, SVP Finland & Exports
- Kirsi Lehtola, SVP Human Resources
- Matti Piri, CFO (until the end of November 2018)
- Kirsi Puntila, SVP Marketing
- Hannu Tuominen, SVP Altia Industrial

In November, the appointment of Niklas Nylander as Altia's new Chief Financial Officer (CFO) and member of the Executive Management Team as of 1 January 2019 was announced.

Share capital and shares

At the end of the reporting period, Altia Plc's share capital amounted to EUR 60 480 378.36 and the number of issued shares was 36 140 485.

The initial public offering (IPO) of Altia Plc was carried out during March 2018. The IPO included a share sale by the State of Finland of 23 000 000 existing shares to retail and institutional investors and an issue of 180 485 new shares to the permanent employees of Altia in Finland and Sweden. The subscription price for the sale shares was set at EUR 7.50 per sale share and EUR 6.75 per share in the personnel offering. Altia's shares are listed on the Nasdaq Helsinki. All shares carry one vote and have equal voting rights. The trading code of the shares is "ALTIA", and the ISIN code is FI4000292438.

Shareholders and trading

At the end of December 2018, Altia had 17 879 registered shareholders and 9 659 252 shares representing 26.7% of the total number of shares were nominee-registered. During 2018, the highest share price was EUR 9.50 and the lowest price EUR 7.015. At the end of December, the closing price of Altia's share was EUR 7.07 and the market capitalisation was approximately EUR 256 million. The number of Altia's shares traded on Nasdaq Helsinki during 2018 was 29 910 623.

There were no flagging notifications during 2018.

On 31 December 2018, the members of the Board of Directors, the CEO and the members of the Executive Management Team including their controlled corporations owned a total of 100 790 shares corresponding to 0.28% of the total number of shares.

During 2018, Altia did not have share option programmes or share-based incentive programmes. Also, Altia did not have authorisations for share repurchases and did not hold any own shares.

SECTOR DISTRIBUTION 31 DECEMBER 2018

Sector	Number of shares	% of shares
Public sector	16 147 068	44.7
Financial and insurance corporations	10 763 830	29.8
Households	6 581 940	18.2
Non-financial corporations	1 430 189	4.0
Non-profit institutions	956 089	2.7
Rest of the world	261 369	0.7
TOTAL	**36 140 485**	

Source: Euroclear Finland

DISTRIBUTION BY SIZE OF HOLDING 31 DECEMBER 2018

Number of shares	Number of shareholders	% of shareholders	Number of Shares	% of shares
1–100	5 600	31.3	437 958	1.2
101–500	9 215	51.5	2 336 398	6.5
501–1 000	1 981	11.1	1 439 858	4.0
1 001–5 000	901	5.0	1 692 437	4.7
5 001–10 000	97	0.5	694 645	1.9
10 001–50 000	61	0.3	1 304 996	3.6
50 001–100 000	7	0.0	545 382	1.5
100 001–500 000	10	0.1	2 084 670	5.8
500 001–& above	7	0.0	25 604 141	70.8
TOTAL	**17 879**	**100.0**	**36 140 485**	**100.0**

Source: Euroclear Finland

LARGEST SHAREHOLDERS 31 DECEMBER 2018

	Sector	Number of shares	% of shares
1	Prime Minister's Office	13 097 481	36.2
2	Varma Mutual Pension Insurance Company	1 550 000	4.3
3	Ilmarinen Mutual Pension Insurance Company	1 088 300	3.0
4	OP-Finland Small Firms Fund	559 516	1.5
5	Åbo Akademi University Foundation	455 700	1.3
6	Veritas Pension Insurance Company Ltd.	404 895	1.1
7	Säästöpankki Pienyhtiöt	265 481	0.7
8	Mandatum Life Unit-Linked	181 301	0.5
9	Säästöpankki Kotimaa	150 000	0.4
10	Takanen Jorma	122 617	0.3
TOTAL		**17 875 291**	**49.5**
Nominee-registered shares		9 659 252	26.7

Source: Euroclear Finland

Personnel

In 2018, Altia Group had an average of 718 (762) employees. On 31 December 2018, Altia Group had 678 (703) employees, of whom 402 (411) were in Finland, 114 (117) in Sweden, 19 (21) in Denmark, 28 (29) in Norway, 32 (37) in Latvia, 61 (65) in Estonia, and 22 (23) in France.

The decrease in personnel was primarily due to non-replacement or other internal arrangements in Finland, and due to continued reorganisation of operations in Latvia. Negotiations on reorganisation of Altia's Scandinavia segment and on operational changes in Finland sales were completed towards the end of the year. These arrangements aimed at renewing ways of working as well as simplifying the organisational structure, and will affect the number of personnel in 2019.

In 2018, training courses were arranged for the commercial organisation, sales and marketing personnel and Let's Lead Better training for managers was continued. The Altia Tasting personnel survey was conducted in January-February 2018. The new survey gave more accurate tools for managers to develop their leadership. In the Rajamäki plant, a leadership program was carried out with focus on building the safety culture.

Incentive programmes

Altia's salaried, senior salaried employees and management participate in an annual performance bonus program. The potential annual bonus is based on both the Group's and its business units' targets, as well as on personal targets. Bonuses are paid either once a year or more frequently as an annual bonus or sales bonus. Workers participate in a production bonus system. The production bonuses are based on the targets of each production unit. Altia's CEO, the members of the Executive Management Team and selected key employees are part of a long-term incentive scheme for 2017–2019.

Based on the profit for 2017, annual performance bonuses amounting to EUR 2.6 (3.7) million, including social expenses, were paid in 2018. Sales commissions totalling EUR 0.1 (0.1) million were paid during the year. Production bonuses totalling EUR 0.4 (0.4) million were included in the result for the period. In connection with the IPO in 2018, the top management were paid a one-off reward totalling EUR 1.4 million for investing the net sum of the received award in the company by subscribing shares in the personnel offering. Additionally, a 130-year celebration bonus totalling EUR 0.6 million was paid to Altia employees, excluding top management.

Corporate Responsibility

In December 2018, Altia was nominated as the Green Company of the Year in the international Drinks Business Green Awards 2018, organised by the Drinks Business magazine. The recognition was awarded to Altia for the bio and circular economy achievements at the Koskenkorva distillery.

For Altia, responsibility is both a strategic priority and a key success factor in its business. The aim of Altia's efforts in the area of corporate responsibility is to build sustainable long-term business. Altia wants to support the development of a modern and responsible Nordic drinking culture in its operating countries in accordance with the company's purpose, Let's Drink Better.

The focus areas of Altia's responsibility work are divided into four cornerstones: Altia & Customers, Altia & Society, Altia & Environment and Altia & Employees. The cornerstones are based on Altia's purpose and strategy, stakeholder expectations, the company's own operating principles and codes of conduct, as well as the amfori BSCI Code of Conduct, which in turn is based on key international agreements protecting workers' rights. Altia has joined the amfori BSCI initiative and aims at annually increase the traceability and transparency of product and raw material supply chains. Altia launched its new Code of Conduct in 2018 to further highlight the company's commitment to responsibility, transparency and integrity.

In 2018, Altia updated its corporate responsibility materiality analysis based on investor views. This was done by conducting a web based survey for private shareholders and interviews with a number of institutional investors. Based on the findings, the focus areas of Altia's corporate responsibility cornerstones were amplified. The most important corporate responsibility aspects highlighted by Altia's shareholders were the quality and safety of Altia's products, the circular economy, conserving groundwater, sustainable packaging and responsible supply chain.

Altia has defined a group level corporate responsibility action plan for 2018–2020, based on its strategy and responsibility cornerstones. The action plan progressed as planned in 2018. More details can be found in the Non-Financial Statement published in connection with the Report by the Board of Directors and in the Annual Report's dedicated section on Corporate Responsibility.

Health, safety and environment

Occupational health and safety

Occupational safety is a vital part of Altia's corporate responsibility. Altia aims to reduce the number of accidents, absences caused by accidents and sickness absences. To achieve these goals, various occupational safety targets were set and related actions were conducted across different Altia sites during 2018.

In 2018, the sickness absence rate was 3.4% (3.3%). The accident frequency (the number of accidents per one million working hours) for accidents requiring at least one day of absence was 13 (11). There were no fatal work-related accidents in 2018 (0).

The environment and energy efficiency

Altia's work with environmental matters focuses on minimising the environmental impacts generated by Altia's own operations. The most significant environmental impacts of Altia's operations are energy consumption, water consumption, waste water quality, waste generation and the non-quality costs generated from scrapped raw materials, packaging materials and end products. Environmental indicators have been defined to support the reduction of these impacts. Annual targets and related actions were defined for different locations.

The environmental indicator for reducing waste volume in relation to production volume decreased at Tabasalu but increased at Rajamäki in 2018, compared to the levels in 2017. Organic loading of wastewater increased both at Rajamäki and Koskenkorva plants during the reporting period. At Koskenkorva, the increase resulted from including A-Rehu's wastewater amounts into the calculation. A-Rehu operates on Koskenkorva plant area. Water consumption relative to production decreased at Tabasalu, Rajamäki and Koskenkorva. The absolute amount of water used decreased at Rajamäki and Tabasalu and increased at Koskenkorva. The average waste reutilisation rate for the Altia production sites in Rajamäki, Koskenkorva and Tabasalu, was 99.7% in 2018 (99.5%).

The bioenergy power plant at Koskenkorva, which uses barley husks as its primary fuel, has enabled the Koskenkorva plant to reduce its carbon dioxide emissions and achieve a 59.9% self-sufficiency rate in fuels for steam production in the reporting period. The bioenergy power plant has been operating at full capacity since January 2015. The use of renewable fuel has reduced the Koskenkorva plant's carbon dioxide emissions by 54% in 2018 compared to the base year 2014 level.

Energy efficiency achieved through various energy saving measures is a major development area for the company both in terms of profitability and environmental responsibility. Altia is committed to the Finnish energy efficiency agreement for the period of 2017–2025, with the target to reduce energy consumption by 10% by the year 2025, compared to the base year 2014. In 2018, energy use relative to production volume increased slightly at the Rajamäki plant and remained at the previous year's level at the Koskenkorva plant.

Risks and risk management

Risk management

Altia's risk management aims to support the realisation of the company's strategy, risk identification, and means to reduce the likelihood and impact of risk materialisation, as well as to safeguard business continuity. Risks may be the result of an internal or external event. The Group's risk management policy has been approved by Altia Plc's Board of Directors.

The risk management policy describes the goals, principles and responsibilities of Altia's risk management and the related reporting principles. In line with this, the risk management steering group supports and coordinates risk management as part of the Group's planning and control processes and reports key risks to the company's management and Audit Committee. The most significant risks and uncertainties are assessed yearly in the Report of the Board of Directors.

Altia's business areas are responsible for risks related to their operations, as well as for their identification, prevention and key limitation methods. The Group's finance department manages financial risks according to the hedging principles defined in the company's financial policy. The management principles of the Group's most significant financial risks are described in more detail in the Notes to the Consolidated Financial Statements, under section 4.1. Financial risk management (p. 145). The finance department is also responsible for insurance programmes that cover the entire Group.

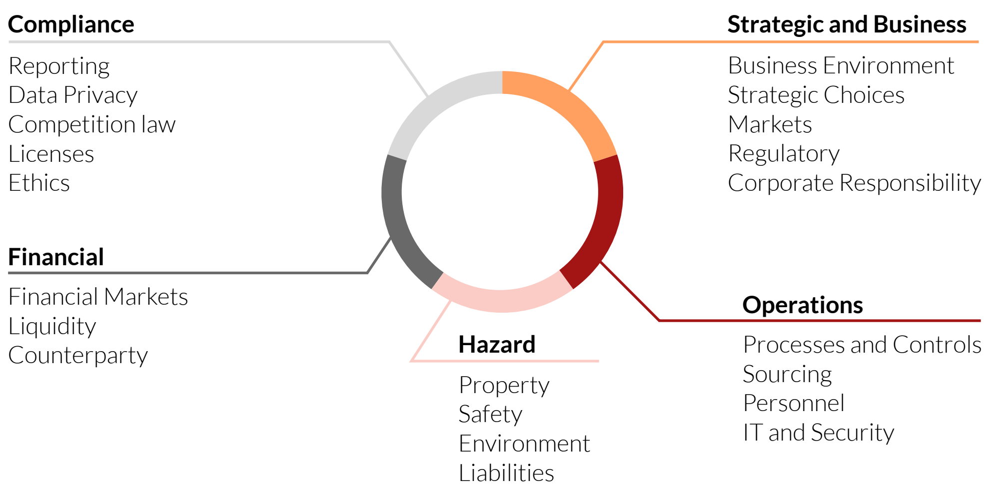
Altia's risk management process is based on the ISO 31000 standard, as applicable. The Corporate Governance Statement includes a more detailed description of the risk management process (p. 37).

Most significant risks and uncertainties

For reporting and risk assessment purposes, risks are categorised into five classes: strategic and business risks, operational and process-related risks, damage risks, financial risks and compliance risks. The Board of Directors assesses these central risks and the measures aiming to reduce the likelihood of their materialisation every three months.

Strategic and business risks relate to decision-making, resource allocation, management systems and the capacity to respond to changes in the operating environment (Strategy period: long-term, 3–5 years). Responsibility risks

ALTIA'S RISK CHART



related to business operations are described in the Non-Financial Statement (p. 40) published in connection with the Report by the Board of Directors.

Operational risks concern the implementation of strategy and day-to-day business operations. Such risks include deviations in processes, systems and conduct (Budget period: short-term, 1–2 years).

Damage risks are errors, malfunctions and accidents occurring within Altia or its operating environment, resulting in damage or loss.

Financial risks pertain to changes in market prices, the short- and long-term adequacy of financial assets and the ability of counterparties to meet their financial obligations.

Compliance risks involve violations of laws and permits as well as ethically sustainable business practices applicable to the company's operations and industry. The following table contains a summary of key uncertainties with an either positive or negative effect on Altia's operations:

Risk	Description	Risk management
Raw material price risk	The availability of domestic barley and its market price has a significant impact on the profitability of Altia's business.	Altia ensures the availability of barley with contract farming and the price of barley in cooperation with farmers and grain companies.
Risks related to customers and consumer demand	Our customers in Altia's market areas include Nordic retail monopolies, wholesalers who sell alcohol, restaurants, retail stores, travel retail, international wine and spirits companies and importers operating in the export markets. The wide customer base provides Altia with diverse opportunities for the long-term development of customer cooperation. Changes in consumer behaviour may, in the long term, shift the emphasis in the demand for Altia's products between different product categories.	A strong market position, efficient industrial processes, good quality and well-known brands improve Altia's chances to manage the risk. Changes in consumption patterns and the need to adjust operations are prepared for by investing in consumer-driven product development.
Product safety risks	As a wine and spirits company, it is particularly important for Altia to ensure the quality and safety of raw materials and finished goods throughout the supply chain.	Altia employs modern methods to ensure the safety of production processes and to eliminate various microbiological, chemical and physical hazards. In ensuring product safety, Altia complies with the operating methods required by food safety management and quality certificates.
Damage risks	Altia has production facilities in Finland, Estonia and France. A fire or other unforeseen event may interrupt the operations of a production facility.	All of our production facilities have insurance policies for material damage and the interruption of operations in the Group's insurance programme. Key production facilities are subject to a risk survey every 1–2 years. Continuity plans serve to limit any possible loss of profits.
Financial risks	The key risks related to finance in Altia's operations are currency transaction and translation risks, interest rate risks and refinancing and liquidity risks.	Financial risk management aims to mitigate any impact that price fluctuations and other uncertainties in the financial markets have on operating results, the balance sheet and cash flow and to ensure sufficient liquidity. The management principles of the Group's most significant financial risks are described in more detail in the Notes to the Consolidated Financial Statements, under section 4.1. (p. 145) Financial risk management.
Compliance	Key compliance risks in Altia's operations relate to the breach of laws, regulations and decisions by authorities concerning reporting, permits and licenses, marketing of alcoholic beverages, competition law and processing of personal data.	Compliance risk management aims to avoid sanctions, consequences and official investigations and decisions that may damage the company's profitability, business continuity and reputation. Altia aims to manage compliance risks and ensure ethically sustainable business practices with guidance and regular training.

Price risk associated with commodities

Barley

In 2018, Altia consumed approximately 211.7 (206) million kilos of Finnish barley to produce ethanol and starch. The availability of high-quality domestic barley is ensured through contract cultivation and cooperation with grain growers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of several factors that affect Finnish barley supply and demand. The price of barley is therefore considered to be a significant risk for Altia during the financial year. The price risk has not been hedged against with derivative instruments.

Electricity

A strong increase in the market price of electricity is a significant risk for Altia. The risk is managed by following Altia's principles for electricity procurement. These principles determine the hedging limits within which the electricity price risk is hedged against. The hedges are executed with the OTC-derivatives of Nasdaq OMX Oslo ASA.

The hedging service for electricity procurement has been outsourced.

At the end of 2018, the hedging ratio for deliveries for the next 12 months was 64.1% (67.6%), in line with the set targets. In 2018, the average hedging ratio was 68.0% (70.0%).

Cash flow hedge accounting in accordance with IFRS 9 is applied to the hedges against electricity price risk, and hedge effectiveness is tested quarterly. All hedging was effective in 2018 (the ineffective portion EUR -0.1 million in 2017 was recognised in financial costs).

Altia purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

Sensitivity to market risks

The following table describes the sensitivity of the Group's profit and equity (before taxes) to changes in electricity prices, foreign exchange rates and interest rates. When Altia applies hedge accounting, the sensitivity is directed at equity. When hedge accounting is not applied, the sensitivity is recognised as a potential impact on profit or loss.

Sensitivity of financial instruments to market risks (before taxes) in accordance with IFRS 7	2018		2017	
EUR million	Income statement	Equity	Income statement	Equity
+/-10% electricity	-	+/-0.3	-	+/-0.3
+/-10% change in EUR/NOK exchange rate	+/-0.1		+/-0.1	
+/-10% change in EUR/SEK exchange rate	+/-2.0		+/-2.0	
+/-10% change in EUR/USD exchange rate	-/+0.5		-/+0.4	
+/-10% change in EUR/AUD exchange rate	-/+0.2		-/+0.2	
+/-1%-points change in interest rates	-0.5	+ 0.6	-0.7	+ 0.8

Note: +10% increase in EUR/SEK exchange rate would have an EUR +2.0 million effect in income statement. Other risks with same principle.

The sensitivity to foreign exchange rate changes is calculated from the net currency position resulting from financial instruments.

The total group floating rate liability position consists of floating rate liabilities EUR 75.0 (85.0) million and floating leg of interest rate swap EUR 20.0 (20.0) million which is netting the interest rate risk.

An increase of one percentage point in interest rates would have an effect of EUR -0.5 (-0.5) million on the income statement. The effect of the increase in market interest rates on the Group's profit is determined by net interest expenses.

Short-term risks and uncertainties

The most significant uncertainties in the company's operations relate to the overall economic development and its impacts on consumption, as well as the effects of alcohol taxes and legislation on consumer behaviour. Unexpected and unforeseen disruptions in production and deliveries form the major short-term risks related to operations, as well as sudden and significant changes in prices of raw materials, especially related to barley.

Altia Plc's Board of Directors has confirmed the Group Risk Management Policy. Risk management is aimed at supporting the implementation of Altia Group's strategy, the identification of risks and methods for reducing the probability and impacts of risks, as well as ensuring business continuity. Risks may arise from internal or external events.

Outlook 2019

Market outlook

The development of the Group's business operations and profitability are affected by the competitive environment, the overall economic outlook, imports by consumers and changes in alcohol taxation. Uncertainty related to changes in consumer buying behaviour and consumer demand continues.

Seasonality

There are substantial seasonal fluctuations in the consumption of alcoholic beverages impacting the net sales and cash flow of Altia. The company typically generates large amounts of its revenue and cash flow during the fourth quarter of the year whereas, the first quarter of the year is significantly lower. In addition, excise taxes related to the high season at the end of the year are paid in January, resulting in large cash outflows at the beginning of the year.

Guidance

The comparable EBITDA is expected to improve from the 2018 level.

The positive trend of Altia's Nordic core brand portfolio is expected to continue. Market development in Finland is expected to flatten out in comparison to 2018 and the markets in Sweden and Norway are expected to grow.

The negative impact of the increased barley cost will be reflected in high raw material costs especially in the first quarters of the year. The guidance assumes a normal harvest in 2019.

In addition, the impact from the implementation of the new IFRS 16 standard is expected to improve comparable EBITDA by 3–4 million.

Dividend proposal

According to the financial statements on 31 December 2018, the parent company's distributable funds amount to EUR 72 084 125.87 including profit for the period of EUR 14 102 839.85.

There have been no significant changes to the parent company's financial position after the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.38 per share be paid for the financial year 2018. The Board's proposal is based on earnings per share (EPS) and takes into consideration the items affecting comparability included in the result for 2018.

Annual General Meeting 2019

Altia Plc's Annual General Meeting (AGM) 2019 is planned to be held on 15 May 2019 in Helsinki. The Board of Directors will summon the AGM later.

Financial calendar 2019

The Annual Report 2018 including the financial statements, Board of Directors' report, Auditor's report, the Corporate Governance statement and the remuneration statement will be published in English and Finnish on Altia's website during week 12 (the week starting on 18 March).

Altia will publish financial reports in 2019 as follows:

- 8 May 2019: Business Review for January–March 2019
- 15 August 2019: Half-Year Report for January–June 2019
- 7 November 2019: Business Review for January–September 2019

Events after the period

On 30 January, the proposals by the Shareholders' Nomination Board to the Annual General Meeting were announced. The Nomination Board proposes that the number of members of the Board of Directors be seven (7) and that the present members Kim Henriksson, Tiina Lencioni, Jukka Ohtola, Torsten Steenholt, Sanna Suvanto-Harsaae and Kai Telanne be re-elected and Anette Rosengren be elected as a new member.

Further, the Nomination Board proposes that the remuneration to be paid to the members of the Board of Directors during the next term consist of a monthly term of office fee as follows: EUR 4 000 per month, Chairman; EUR 2 500 per month, Vice Chairman; EUR 2 000 per month, member.

In addition to the monthly fee, the Board members would receive a meeting fee for the Board of Directors and Board Committee meetings of EUR 600 per meeting for Board members residing in Finland and EUR 1 200 per meeting for Board members residing abroad. Travel expenses would be reimbursed in accordance with the company's travel policy.

Helsinki, 6 February 2019
Altia Plc
Board of Directors

Non-financial statement

Introduction

Corporate responsibility is both a strategic priority and a key success factor for Altia. The aim of the company's responsibility efforts is to build a sustainable long-term business. Altia wants to promote a modern and responsible Nordic drinking culture. This target is summarised in the company's purpose, Let's Drink Better. Better drinking can be interpreted as, for example, a drinking culture that is of a higher quality, moderate in quantity, lighter, more social or more environmentally friendly.

Altia has reported on the company's responsibility efforts for ten years in accordance with the model for corporate responsibility reporting for state-owned companies[1] and the Global Reporting Initiative (GRI) guidelines.

This non-financial statement describes, in accordance with the Finnish Accounting Act, Altia's approach to the management of environmental, social and employee matters, as well as matters related to respect for human rights and anti-corruption and bribery, in its operations. More detailed information about our responsibility work is provided in a separate section on Corporate Responsibility in Annual Report.

Business model

Altia's business model is based on offering a strong portfolio of its own brands and a versatile range of international partner brands, as well as providing services to its customers utilising the company's production, packaging and logistics capacity. In addition, by-products from the production process are sold to industrial customers in other industries. The integrated operating model creates significant economies of scale in sourcing, production and distribution, and allows the company to take advantage of its shared operations – such as consumer research, innovation, product development and overall know-how – and use its centralised support functions efficiently. The Business Overview section contains a description of how Altia creates value.

Environmental matters

a. Policies and ways of working (including due diligence)

Altia's work on environmental matters focuses on minimising the environmental impacts of the company's own operations. Altia aims for high material and resource efficiency, and develops products and their packaging with a view to achieving a lower environmental impact. In addition, necessary measures are taken to protect the groundwater resources used as an ingredient in Altia's products.

The environmental aspects relevant to the company are assessed at three-year intervals. In the assessment conducted in 2018, energy consumption, water consumption, wastewater and its quality, as well as waste generation, were identified as the most significant environmental aspects. Environmental key performance indicators and annual reduction targets were defined to support the reduction of these impacts. Plant-specific targets and the actions necessary to achieve the targets are set annually, and progress is monitored monthly with the help of the indicators.

The standards, policies and principles relevant to Altia's environmental work include:

- Altia Code of Conduct
- Altia Quality, Safety and Environmental Principles
- ISO14001 Environmental Management System standard; the certification covers Altia's operations in Finland

b. Principal risks and their management

Environmental risks are assessed regularly as part of the assessment of Altia's environmental impacts and of Altia Group's risk management. The principal risks identified include possible leaks to the soil or waterways (including groundwater areas), overruns of the water quality limits in Altia's environmental permits, and the costs related to maintaining compliance with increasingly strict environmental regulations as well as the fines and sanctions resulting from any non-compliance with the said regulations.

The risks are managed through various measures, including the maintenance of an environmental management system in accordance with the ISO14001 standard, regular monitoring of wastewater quality, ownership of land in groundwater areas and monitoring legislative developments.

c. Outcome and KPIs

Altia's environmental work received notable international recognition in 2018 when the company was nominated as the Green Company of the Year in The Drinks Business Green Awards. The recognition was awarded to Altia for the bio and circular economy achievements at the Koskenkorva distillery.

In Finland, Altia has joined the voluntary Energy Efficiency Agreement, the other parties of which are the Ministry of Economic Affairs and Employment, industry associations and companies. With the agreement, Altia commits to reducing its energy consumption by 10%

[1] Government Resolution on State Ownership Policy 3 November 2011, Annex 3

KPI	2018	2017	2016
Energy efficiency (MWh/m³ of product or tonne of barley)	Koskenkorva: 0.63 Rajamäki and Tabasalu: 0.31	Koskenkorva: 0.63 Rajamäki and Tabasalu: 0.28	Koskenkorva: 0.71 Rajamäki and Tabasalu: 0.34
Water efficiency (m³/m³ of product or tonne of barley)	Koskenkorva: 2.26 Rajamäki and Tabasalu: 1.61[1]	Koskenkorva: 2.28 Rajamäki and Tabasalu: 1.46	Koskenkorva: 2.79 Rajamäki and Tabasalu: 1.47
Quality of wastewater (kg COD/m³ of product or tonne of barley)	Koskenkorva: 3.10 Rajamäki and Tabasalu: 3.35[2]	Koskenkorva: 2.23 Rajamäki and Tabasalu: 2.92	Koskenkorva: 1.97 Rajamäki and Tabasalu: 2.71
Waste volume (kg/m³ of product)	Rajamäki and Tabasalu: 52.06[3]	Rajamäki and Tabasalu: 44.83	Rajamäki and Tabasalu: 49.22
Average rate of recycling and reutilisation	99.7%	99.5%	99.5%
Monetary value of fines and number of non-monetary sanctions	0	0	0

[1] Monitoring of the KPI for water efficiency was discontinued at the beginning of 2018 at the Rajamäki plant of the Industrial Products unit, because the KPI is not material for the operations. With regard to Rajamäki, the indicator includes the alcoholic beverage plant.
[2] The KPI for the quality of wastewater is not monitored at the Tabasalu plant.
[3] The KPI for waste volume is not monitored at the Rajamäki and Koskenkorva plants of the Industrial Products unit, because it is not material for the plants in question. With regard to Rajamäki, the indicator includes the alcoholic beverage plant.

by 2025, compared to the base year 2014. In 2018, energy use relative to production volume increased slightly at the Rajamäki plant and remained at the previous year's level at the Koskenkorva plant.

The limit values for wastewater loads are specified in Altia's environmental permits. The organic load of the wastewater of the Rajamäki plant increased from the previous year. The daily limit for biological oxygen demand specified in the requirements for the environmental permit was exceeded six times during the year. Investigations aiming to reduce the wastewater load and prevent any further exceeding of permit limits are ongoing. The measurement method concerning the biochemical oxygen demand at the Koskenkorva plant was changed at the beginning of the review period (the wastewater of A-Rehu, which operates in the same plant area, was included in the ratio of the Koskenkorva plant), due to which the load increased from the previous year.

The results of Altia's key environmental indicators are summarised in the table above and discussed in more detail under Altia & the Environment in the section on Corporate Responsibility.

The bioenergy power plant at the Koskenkorva plant enabled Altia to reduce the Koskenkorva plant's carbon dioxide emissions by 54% in 2018, compared to 2014. The plant's fuel self-sufficiency in steam production was 59.9% in 2018, which is lower than the year before. This is explained by the smaller grain size in 2018, due to which the volume of the husk to be incinerated was lower than in the previous year.

Social and employee matters

Consumer and product related matters

a. Policies and ways of working (including due diligence)

Product safety is a top priority for Altia, and the company continuously improves the quality of raw materials and final products. Altia markets its products responsibly and in compliance with applicable marketing laws, and provides consumer information in accordance with applicable regulations.

The key processes related to product quality and safety have been defined and the relevant instructions are maintained in Altia's management system. Key performance indicators regarding quality, targets included, have been set, and their monitoring began in 2018. The KPIs concern quality costs, customer feedback and the proportions of deviating batches. Plant-specific targets and the actions necessary to achieve those targets are furthermore set annually, and progress is monitored monthly with the help of the indicators.

Altia wants to build a responsible drinking culture. Given that the company's own employees are in a key position for driving the change, Altia has launched an employee alcohol policy. The policy is applicable to all Altia employees and everyone working on Altia's production sites or in its offices.

Altia's Rajamäki plant has the international Fair Trade and Fair for Life certifications. The Fair for Life certification was granted to the plant in the reporting year 2018. The Koskenkorva distillery, the Rajamäki alcoholic beverage plant and the distillery in Sundsvall are certified for organic production.

The standards, policies and principles relevant to the safety, quality, marketing and consumption of Altia's products include:

- Altia Code of Conduct
- ISO9001 Quality Management standard; the certification covers Altia's operations in Finland as well as the Tabasalu plant in Estonia
- ISO22000 Food Safety Management standard; the certification covers Altia's Rajamäki plant
- Altia Quality, Safety and Environmental Principles
- Altia Marketing Guidelines
- Altia Employee Alcohol Policy

b. Principal risks and their management
The risks are assessed as part of quality and safety risk assessments and as part of Altia Group's risk management. The principal risks identified include failure to comply with hygiene requirements, lack of consistency in the quality of products, any contamination of products, as well as defects in raw materials or packaging. Such incidents can lead to product recalls or make the company subject to legal claims. As the alcohol business is highly regulated, stricter regulation regarding the marketing and advertising of alcoholic beverages or their taxation, for example, could have an impact on the company's operations.

To manage risks of this type, Altia maintains quality and food safety management systems in accordance with international standards. Quality is monitored continuously during production by means of line inspections and testing, as well as the analysis of end products. Instructions and process are maintained in view of possible recalls and situations are practised regularly by way of phantom testing. Applicable legislation and any developments therein are reviewed regularly.

c. Outcome and KPIs
Altia's Rajamäki plant received the ISO 22000 food safety certificate in 2017, and food safety was improved in accordance with the ISO 22000 standard during the reporting period. During the year, the company arranged training for all employees through an online platform, enhanced quality monitoring during production by, for instance, adopting a manufacturing execution system (MES), and continued to improve the plant's condition by carrying out floor and wall repairs, among others. Plant-specific targets and the actions necessary to achieve those targets are set annually and progress is monitored monthly with the help of the indicators.

KPI	2018	2017	2016
Amount of income taxes paid and excise taxes collected	EUR 452.3 million The full tax footprint is available in the section on Corporate Responsibility	EUR 425.6 million The full tax footprint is available in the section on Corporate Responsibility	EUR 466.3 million The full tax footprint is available in the 2016 Responsibility Report

Employee matters

a. Policies and ways of working (including due diligence)
Altia is committed to building a culture with a motivating and supportive working environment based on safety, openness, equality and trust. The company values diversity and promotes equal treatment and equal opportunities. Altia maintains a continuous dialogue with its employees by sharing information and engaging the employees, and respects the freedom of association and the right to collective bargaining. All Altia employees are expected to respect each other's rights to fair treatment and to act in accordance with the Altia Behaviours. These are *Renew Bravely*, *Show Direction*, *Build Success Together* and *Implement*!

Altia wants to ensure safe and healthy working conditions for all its employees. The goal is to reduce sickness absences, the number of accidents and the number of absences caused by accidents. Plant-specific targets and the actions necessary to achieve those targets are set annually, and progress is monitored monthly by way of key performance indicators. Targets are also set and action plans prepared for operating locations that are not within the scope of the OHSAS 18001:2007 certification.

The standards, policies and principles relevant to employee matters include:
- Altia Code of Conduct
- Altia Behaviours
- OHSAS 18001:2007 Occupational Health and Safety Management standard; the certification covers Altia's operations in Finland
- Altia Quality, Safety and Environmental Principles
- amfori BSCI Code of Conduct

b. Principal risks and their management
The risks are assessed as part of Altia Group's risk management. The principal risks relate to Altia's ability to recruit, develop, motivate and retain the right know-how and succeed in daily leadership, the maintenance of good collaboration practices with employees and their unions, as well as the occurrence of accidents. To manage the risks, Altia develops its employer value proposition, recruitment and retention, conducts the employee satisfaction survey Altia Tasting on an annual basis, maintains frequent collaboration with unions, and maintains an occupational health and safety management system in accordance with the OHSAS 18001 standard.

c. Outcome and KPIs
The company has organised training for its commercial organisation, as well as the sales and marketing personnel, every year since 2016. The Let's Lead Better training for managers was kicked off in 2017. The Let's Lead Better training is based on the principles of the Altia Behaviours, which are part of all the development and training of Altia's people.

Altia's annual Altia Tasting employee survey was organised in January 2018. The revised

KPI	2018	2017	2016
Sickness absence, %	3.4	3.3	3.2
Accident absence rate	13	11	8
Accident absence, %	0.07	0.29	0.22
Number of accidents	17	16	N/A

The number of accidents was not monitored at all sites in 2016, due to which the KPI for 2016 is missing. An accident is defined as any accident leading to at least one day of absence. More details about the indicators are available under Altia & Employees in the section on Corporate Responsibility.

survey provided managers with increasingly precise results for the development of their own leadership. The most important development targets uncovered in the employee survey related to the communication of opportunities for competence development, the development of leadership skills and the visibility of the executive management. Several measures were carried out during the year to develop these areas, such as the Let's Lead Better training sessions and Altia's Top Leader's Forum.

The results of the indicators for occupational health and safety are presented in the table above. There were no fatal work-related accidents during the year.

Respect for human rights

a. Policies and ways of working (including due diligence)

Altia is committed to respecting and promoting human rights and international labour standards in accordance with the United Nation's (UN) Universal Declaration of Human Rights and the key conventions of the International Labour Organization (ILO). Altia also expects the same from its suppliers, partners and subcontractors.

Altia's most relevant human rights impacts are related to the sourcing of wines, spirits and raw materials. In 2017, Altia joined amfori BSCI and amfori BSCI's Sustainable Wine Programme to develop responsible sourcing. As a participant Altia is committed to furthering the principles of the amfori BSCI Code of Conduct in its supply chains. The code of conduct's principles are based on key international agreements and frameworks such as ILO conventions and declarations, the UN Guiding Principles on Business and Human Rights, as well as OECD guidelines for multinational enterprises.

Altia's due diligence process is developed continuously. It is currently composed of mapping the supply chains of our products and their components, using a questionnaire to gather information about our suppliers' and partners' responsibility work, contractual obligations as well as participation in and utilisation of the tools offered by amfori BSCI, including third party audits. Altia has a whistleblowing channel open to all stakeholders, maintained by an independent third party.

The standards, policies and principles relevant to Altia's work with human rights matters include:

- Altia Code of Conduct
- amfori BSCI Code of Conduct
- Altia Code of Conduct for Suppliers and Subcontractors

b. Principal risks and their management

The principal risks are related to Altia's business relationships and primarily concern the wine, spirits and raw material supply chains where these extend to countries with a higher risk of possible violations of international labour standards. In addition, Altia's customers have demands for social compliance within the supply chains, and any violation of such demands by Altia's suppliers, sub-suppliers or partners could lead to situations where a customer stops any further deliveries of a product. The risks are managed with the due diligence process explained above.

c. Outcome and KPIs

21 amfori BSCI audits (full audits or follow-up audits) were conducted at Altia's suppliers, partners or their sub-suppliers in 2018 (18 in 2017). The areas where improvement needs were identified included the maintenance of sufficient management systems to ensure compliance with social responsibility, occupational health and safety and compliance with regulations related to working hours. In addition, focused inspections, commissioned by Altia's customers, continued at some of suppliers or partners in South Africa.

During 2018, Altia personnel responsible for sourcing took part for example in a web based training of responsible sourcing, organised by Altia's customer. Additionally, an amfori BSCI audit planning for 2019 was initiated for suppliers of raw materials for Altia's proprietary brands. Furthermore, Altia continued its cooperation with various stakeholders to address the concerns regarding working conditions at South African vineyards.

KPI	2018	2017	2016
Share of purchases from risk countries as identified in amfori BSCI risk country classification	3%	4%	4%
Number of grievances related to human rights reported through the whistleblowing channel	0	0	N/A

The whistleblowing channel was launched in October 2017, due to which the first full year figure concerns 2018.

Anti-corruption and -bribery matters

a. Policies and ways of working (including due diligence)

Altia has zero tolerance towards bribery and corruption. The company is committed to operating fairly and to not offering improper benefits to any party. Altia also expect its representatives, consultants, agents, subcontractors and other business partners to unconditionally refrain from corruptive behaviour when performing services for Altia or on its behalf. Altia does not support, either directly or indirectly, political parties or organisations. Nor does the company participate in financing the election campaigns of individual candidates.

Altia published its new Code of Conduct is 2018. The Altia Code of Conduct describes the company's commitment to responsibility and integrity. The cornerstones of the Altia Code of Conduct are our *employees*, *our business* and *our integrity*. Every Altia employee is familiarised with the Altia Code of Conduct, including the company's anti-bribery and corruption activities, with the help of an online course.

Altia has a whistleblowing channel maintained by an independent third party. The channel is open to all Altia employees and external stakeholders. All concerns raised, whether through the channel or through other means, are investigated in accordance with an established process to ensure accuracy, anonymity and fairness.

The standards, policies and principles relevant to anti-corruption and bribery matters include:

- Altia Code of Conduct
- Anti-Bribery and Corruption Policy
- Whistleblowing channel

b. Principal risks and their management

The risks are assessed as part of Altia Group's risk management. The principal risks associated with anti-corruption and bribery matters include a reputational risk caused by any act of corruption or bribery, especially related to Altia's key persons and business partners. Given that the alcohol business is often a regulated business, obtaining the necessary licenses and permits is associated with a risk of corruption or bribery, especially in countries with a high corruption index. The risks are managed through contractual obligations, third party due diligence inspections concerning suppliers and distributors, where necessary, as well as internal training on the Altia Anti-Bribery and Corruption Policy.

c. Outcome and KPIs

In 2018, Altia arranged a Code of Conduct online course, mandatory for its entire personnel. The whistleblowing channel has been in use since 2017. No reports were submitted through the whistleblowing channel in 2018. The first full-year figures on reports received through the whistleblowing channel were available in 2018.

KPI	2018	2017	2016
Communication and training on anti-corruption policies	Online course on the Altia Code of Conduct organised for the entire personnel	The relevant employees at Altia were provided with online training	N/A
Number of anti-corruption and bribery incidents reported through the whistleblowing channel	0	0	N/A

Helsinki, 6 February 2019
Altia Plc
Board of Directors

Key ratios of the Group

		2018	2017	2016
Income statement				
Net sales	EUR million	357.3	359.0	356.6
Comparable EBITDA	EUR million	40.0	42.4	40.8
(% of net sales)	%	11.2	11.8	11.5
EBITDA	EUR million	34.0	40.3	60.8
Comparable operating result (EBIT)	EUR million	25.6	28.2	26.4
(% of net sales)	%	7.2	7.8	7.4
Operating result	EUR million	19.7	26.1	46.3
Result before taxes	EUR million	18.6	25.0	45.0
Result for the period	EUR million	15.1	18.3	36.1
Items affecting comparability	EUR million	-6.0	-2.1	19.9
Balance sheet				
Cash and cash equivalents	EUR million	42.0	52.4	68.0
Total equity	EUR million	150.1	136.8	191.3
Borrowings	EUR million	89.4	100.1	72.8
Invested capital	EUR million	239.5	236.9	264.0
Profitability				
Return on equity (ROE)	%	10.5	11.1	20.0
Return on invested capital (ROI)	%	7.0	8.0	14.4
Financing and financial position				
Net debt	EUR million	47.4	47.7	4.7
Gearing	%	31.6	34.9	2.5
Equity ratio	%	38.4	34.3	44.2
Net cash flow from operating activities	EUR million	6.5	37.6	29.4
Net debt/comparable EBITDA		1.2	1.1	0.1

		2018	2017	2016
Share-based key ratios				
Earnings / share (Basic and diluted)	EUR	0.42	0.51	1.00
Equity / share	EUR	4.15	3.80	5.32
Dividend / share	EUR	0.38*	-	1.96
Dividend/earnings	%	91.2*	-	196
Effective dividend yield	%	5.4*	-	-
Price/Earnings		17.0	-	-
Closing share price on the last day of trading	EUR	7.07	-	-
Highest	EUR	9.50	-	-
Lowest	EUR	7.015	-	-
Market value of shares at the end of period	EUR million	255.5	-	-
Number of shares outstanding at the end of period		36 140 485	35 960 000	35 960 000
Personnel				
Average number of personnel		718	762	829

* Board's proposal

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES (APM) TO IFRS FIGURES AND ITEMS AFFECTING COMPARABILITY (IAC)

EUR million	2018	2017
Items affecting comparability		
Net gains or losses from business and assets disposals	0.4	1.3
Cost for closure of business operations and restructurings	-1.1	-1.1
Major corporate projects		
Costs related to the closed voluntary pension scheme	-0.7	-
Costs related to stock exchange listing	-4.6	-2.4
Total items affecting comparability	-6.0	-2.1
Comparable EBITDA		
Operating result	19.7	26.1
Less:		
Depreciation, amortisation and impairment	14.4	14.2
Total items affecting comparability	6.0	2.1
Comparable EBITDA	40.0	42.4
% of net sales	11.2	11.8
Comparable EBIT		
Operating result	19.7	26.1
Less:		
Total items affecting comparability	6.0	2.1
Comparable EBIT	25.6	28.2
% of net sales	7.2	7.8

Altia presents alternative performance measures as additional information to financial measures presented in the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows prepared in accordance with IFRS. In Altia's view, alternative performance measures provide significant additional information on Altia's results of operations, financial position and cash flows to management, investors, analysts and other stakeholders.

Alternative performance measures should not be viewed in isolation or as a substitute to the IFRS financial measures. All companies do not calculate alternative performance measures in a uniform way, and therefore Altia's alternative performance measures may not be comparable with similarly named measures presented by other companies.

The alternative performance measures are unaudited.

THE DEFINITIONS AND REASONS FOR THE USE OF FINANCIAL KEY INDICATORS

Key figure	Definition	Reason for the use
Operating margin, %	Operating result / Net sales	Operating result shows result generated by the operating activities.
EBITDA EBITDA margin, %	Operating result before depreciation and amortization EBITDA / Net sales	EBITDA is the indicator to measure the performance of the Group.
Comparable operating result Comparable operating margin, % Comparable EBITDA Comparable EBITDA margin, % Items affecting comparability	Operating result excluding items affecting comparability Comparable operating result / Net sales EBITDA excluding items affecting comparability Comparable EBITDA / Net sales Material items outside normal business, such as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development.	Comparable EBITDA, comparable EBITDA margin, comparable operating result and comparable operating margin are presented in addition to EBITDA and operating result to reflect the underlying business performance and to enhance comparability from period to period. Altia believes that these comparable performance measures provide meaningful supplemental information by excluding items outside normal business, which reduce comparability between the periods. Comparable EBITDA is an internal measure to assess performance of Altia and key performance measure at segment level together with net sales. Comparable EBITDA margin is also one of Altia's financial targets. Comparable EBITDA is commonly used as a base for valuation purposes outside the Company and therefore important measure to report regularly.
Invested capital	Total equity + Borrowings	Base for ROI measure.
Return on equity (ROE), %	Result for the period / Total equity	This measure can be used to evaluate how efficiently Altia has been able to generate results in relation to the equity of the Company.
Return on invested capital (ROI), %	(Result for the period + Interest expenses) / (Total equity + Non-current and current borrowings) (average)	This measure is used to evaluate how efficiently Altia has been able to generate net results in relation to the total investments made to the Company.
Borrowings Net debt	Non-current borrowings + Current borrowings Borrowings – cash and cash equivalents	Net debt is an indicator to measure the total external debt financing of the Group.
Gearing, %	Net debt / Total equity	Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's indebtedness. Important measure for the loan portfolio.
Equity ratio, %	Total equity / Total assets – Advances received	Equity / assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's capital used in the operations.
Net debt / Comparable EBITDA	Net debt / Comparable EBITDA	The level of Net debt / Comparable EBITDA is one of Altia's financial targets.
Earnings / share	Result for the period attributable to shareholders of the parent company/Share-issue adjusted number of shares during the period	
Equity/share	Equity attributable to shareholders of the parent company /Share- issue adjusted number of shares at the end of period	
Dividend/share	Dividend distribution for period/Number of shares (basic) at the end of period	
Dividend / earnings %	Dividend/share / Earnings/ share	
Effective dividend yield %	Dividend/share / Price of share at the end of the accounting period	
Price / earnings	Price of share at the end of accounting period / Earnings/share	
Market value of outstanding shares	The number of shares at the end of accounting period x the price of the share at the end of accounting period.	

Financial Statements

Contents to the Financial Statements

SYMBOLS

Accounting

Critical estimates and management judgements

*Part of the Financial Statements

CONSOLIDATED INCOME STATEMENT

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
NET SALES	1.1.	**357.3**	**359.0**
Other operating income	1.3.	7.4	8.3
Materials and services	1.4.	-206.8	-202.0
Employee benefit expenses	1.5.	-49.9	-52.0
Other operating expenses	1.6.	-73.9	-72.9
Depreciation, amortisation and impairment	1.7.	-14.4	-14.2
OPERATING RESULT		**19.7**	**26.1**
Finance income	3.1.	3.5	4.5
Finance expenses	3.1.	-5.8	-6.4
Share of profit in associates and income from interests in joint operations		1.2	0.9
RESULT BEFORE TAXES		**18.6**	**25.0**
Income tax expense	6.1.	-3.6	-6.7
RESULT FOR THE PERIOD		**15.1**	**18.3**
Result for the period attributable to:			
Owners of the parent		15.1	18.3
Earnings per share for the result attributable to owners of the parent, EUR			
Basic and diluted	3.4.	0.42	0.51

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Result for the period		15.1	18.3
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	2.6.	0.0	-0.0
Related income tax	6.1.	-0.0	0.0
Total		**-0.0**	**-0.0**
Items that may be reclassified to profit or loss			
Cash flow hedges		0.4	1.4
Available-for-sale financial assets		-	0.6
Translation differences	3.4.	-3.5	-4.0
Income tax related to these items	6.1.	-0.1	-0.3
Total		-3.2	-2.3
Other comprehensive income for the period, net of tax		-3.2	-2.3
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**11.9**	**16.0**
Total comprehensive income attributable to:			
Owners of the parent		11.9	16.0

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

EUR million	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Goodwill	2.1.	80.7	82.1
Other intangible assets	2.1.	29.6	34.4
Property, plant and equipment	2.2.	64.6	67.4
Investments in associates and interests in joint operations	5.3.	7.9	7.6
Financial assets at fair value through other comprehensive income	3.2.1.	1.4	-
Available-for-sale financial assets	3.2.1.	-	1.4
Other receivables	3.2.1.	-	1.0
Deferred tax assets	6.1.	0.8	1.0
Total non-current assets		**185.1**	**194.8**
Current assets			
Inventories	2.3.	99.6	94.5
Contract assets	2.4.	0.2	-
Trade and other receivables	2.5.	60.9	53.9
Current tax assets		2.5	2.8
Cash and cash equivalents	3.2.1.	42.0	52.4
Total current assets		**205.3**	**203.6**
TOTAL ASSETS		**390.4**	**398.4**

EUR million	Note	31 Dec 2018	31 Dec 2017
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	3.4.		
Share capital		60.5	60.5
Invested unrestricted equity fund		1.2	-
Fair value reserve		0.6	0.6
Hedge reserve		0.0	-0.3
Translation differences		-19.6	-16.0
Retained earnings		107.3	92.0
Total equity		**150.1**	**136.8**
Non-current liabilities			
Deferred tax liabilities	6.1.	16.8	17.7
Borrowings	3.2.2.	82.7	89.1
Employee benefit obligations	2.6.	1.3	1.3
Total non-current liabilities		**100.8**	**108.2**
Current liabilities			
Borrowings	3.2.2.	6.7	11.0
Provisions	2.9.	0.5	-
Trade and other payables	2.7.	131.4	137.4
Contract liabilities		0.6	-
Current tax liabilities		0.4	5.0
Total current liabilities		**139.5**	**153.4**
Total liabilities		**240.3**	**261.6**
TOTAL EQUITY AND LIABILITIES		**390.4**	**398.4**

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
CASH FLOW FROM OPERATING ACTIVITIES			
Result before taxes		18.6	25.0
Adjustments			
Depreciation, amortisation and impairment	1.7.	14.4	14.2
Share of profit in associates and income from investments in joint operations	5.3.	-1.2	-0.9
Net gain on sale of non-current assets	1.3.	-0.5	-1.6
Finance income and costs	3.1.	2.3	1.9
Other adjustments		0.8	0.5
		15.7	14.1
Change in working capital			
Change in inventories, increase (-) / decrease (+)		-5.5	1.2
Change in contract assets, trade and other receivables, increase (-) / decrease (+)		-7.4	9.4
Change in contract liabilities, trade and other payables, increase (+) / decrease (-)		-4.3	-2.6
Change in provisions, increase (+) / decrease (-)		-	-1.3
Change in working capital		-17.2	6.7
Interest paid	3.1.	-1.4	-1.7
Interest received	3.1.	0.1	0.3
Other finance income and expenses paid	3.1.	-1.4	-2.2
Income taxes paid	6.1.	-8.0	-4.6
Financial items and taxes		-10.6	-8.2
NET CASH FLOW FROM OPERATING ACTIVITIES		**6.5**	**37.6**

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets	2.1.,2.2.	-7.7	-11.9
Proceeds from sale of property, plant and equipment and intangible assets	1.3.	0.6	2.6
Proceeds from sale of available-for-sale financial assets		-	0.0
Repayment of loan receivables	3.2.	0.9	0.3
Interest received from investments in joint operations	5.3.	0.9	0.9
Dividends received	3.1.	0.1	0.2
NET CASH FLOW FROM INVESTING ACTIVITIES		**-5.2**	**-7.8**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings	3.3.2.	20.0	100.0
Repayment of borrowings	3.3.2.	-30.7	-72.5
Dividends paid and other distributions of profits	3.6.	-	-70.5
Share issue, personnel offering		1.2	-
NET CASH FLOW FROM FINANCING ACTIVITIES		**-9.5**	**-43.0**
CHANGE IN CASH AND CASH EQUIVALENTS		**-8.2**	**-13.2**
Cash and cash equivalents at the beginning of the period		52.4	68.0
Translation differences on cash and cash equivalents		-2.2	-2.5
Change in cash and cash equivalents		-8.2	-13.2
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3.2.3.	**42.0**	**52.4**

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the parent EUR million	Note	Share capital	Invested unrestricted equity fund	Fair value reserve	Hedge reserve	Translation differences	Retained earnings	Total equity
Equity at 1 January 2017		**60.5**	**-**	**-**	**-1.4**	**-12.3**	**144.5**	**191.3**
Total comprehensive income								
Result for the period		-	-	-	-	-	18.3	18.3
Other comprehensive income (net of tax)								
Cash flow hedges		-	-	-	1.1	-	-	1.1
Available-for-sale financial assets	3.2.1.	-	-	0.6	-	-	-	0.6
Translation differences	3.4.	-	-	-	-	-3.8	-0.2	-4.0
Remeasurements of post-employment benefit obligations	2.6.	-	-	-	-	-	-0.0	-0.0
Total comprehensive income for the period		**-**	**-**	**0.6**	**1.1**	**-3.8**	**18.0**	**16.0**
Transactions with owners								
Dividend distribution		-	-	-	-	-	-70.5	-70.5
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-70.5**	**-70.5**
EQUITY AT 31 DECEMBER 2017		**60.5**	**-**	**0.6**	**-0.3**	**-16.0**	**92.0**	**136.8**
Equity at 1 January 2018		**60.5**	**-**	**0.6**	**-0.3**	**-16.0**	**92.0**	**136.8**
Change in accounting principle		-	-	-	-	-	0.1	0.1
Equity at 1 January 2018, restated		**60.5**	**-**	**0.6**	**-0.3**	**-16.0**	**92.1**	**136.9**
Total comprehensive income								
Result for the period		-	-	-	-	-	15.1	15.1
Other comprehensive income (net of tax)								
Cash flow hedges		-	-	-	0.3	-	-	0.3
Translation differences	3.4.	-	-	-	-	-3.5	0.0	-3.5
Remeasurements of post-employment benefit obligations	2.6.	-	-	-	-	-	-0.0	-0.0
Total comprehensive income for the period		**-**	**-**	**-**	**0.3**	**-3.5**	**15.1**	**11.9**
Transactions with owners								
Share issue		-	1.2	-	-	-	-	**1.2**
Share based payment, personnel offering		-	-	-	-	-	0.1	**0.1**
Total transactions with owners		**-**	1.2	-	-	-	0.1	**1.4**
EQUITY AT 31 DECEMBER 2018		**60.5**	**1.2**	**0.6**	**0.0**	**-19.6**	**107.3**	**150.1**

The notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

GENERAL INFORMATION

Information on Altia

Altia Plc (the "Company") together with its' subsidiaries (the "Group", "Altia Group" or "Altia") is an international alcoholic beverage service Group, which operates in the Nordic countries, Estonia, Latvia and France producing, marketing, selling and distributing both own and partner brands. Altia distils barley spirit from domestic barley for the basis of its beverages. The production plants are located in Finland and Estonia, and aging and production of cognac in France. Altia has high-quality brands of its own and international brands. In addition, the company represents international brands from all over the world. Altia's business also includes industrial products such as starch and feed, technical ethanol and contract services.

Altia's customers include alcohol retail monopolies, alcoholic beverage wholesale outlets, restaurants, grocery stores, travel trade and importers in the export markets.

Altia Plc, the parent company of Altia Group, is domiciled in Helsinki, Finland. Altia Plc is a Finnish publicly listed company. Altia's shares are listed in Nasdaq Helsinki Ltd. The registered address of the Company is Kaapeliaukio 1, FI-00180 Helsinki, Finland. Copies of the consolidated financial statements are available online at www.altiagroup.com or at the Group's headquarters at Kaapeliaukio 1, FI-00180 Helsinki, Finland.

Altia Plc's Board of Directors has approved these financial statements for publication in its meeting on 6 February 2019. According to the Finnish Limited Liability Companies Act, shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting also has the right to make a decision to amend the financial statements.

Basis of preparation

The consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with International Financial Reporting Standards (IFRSs) complying with the SIC and IFRIC interpretations in force and approved by EU on 31 December 2018. Notes to the consolidated financial statements also comply with the requirements of the Finnish Accounting Act and Limited Liability Companies Act.

New and amended standards applied in 2018 and future periods are described in Note 6.4 (p. 162).

The consolidated financial statements for the year ended 31 December 2018 has been prepared on a historical cost basis, except equity investments and derivatives. The consolidated financial statements are presented in thousands of euros (Annual Reports in millions of euros). The figures are rounded to the nearest thousand, and therefore the sum of individual figures may deviate from the total presented. If the figure is EUR 0, it is shown as a hyphen.

Refer to the table below to see which notes and accounting principles are related.

Nr.	Note	Accounting principle
1.	Operating result	Revenue recognition, operating result
1.2.	Segment information	Operating segments
2.9.	Provisions	Provisions
2.6.	Employee benefit obligations	Employee benefits
2.2.	Property, plant and equipment	Property, plant and equipment
2.3.	Inventories	Inventories
1.6. 2.2.	Other operating expenses Property, plant and equipment	Leases
2.1.	Goodwill and other intangible assets	Goodwill
2.1.	Goodwill and other intangible assets	Intangible assets
3.2.1. 3.2.3.	Financial assets Financial assets and liabilities- classification and fair value	Financial assets
3.2.2. 3.2.3.	Financial liabilities Financial assets and liabilities- classification and fair value	Financial liabilities
3.3.	Derivative instruments and hedge accounting	Derivative contracts and hedge accounting
5.2.	Subsidiaries	Consolidation principles of subsidiaries
5.2.	Subsidiaries	Non-controlling interest and transactions with non-controlling interest
5.3.	Investments in associates and interests in joint operations	Associates and joint ventures
6.1.	Income tax expense	Income and deferred taxes

Accounting policies requiring management judgement and key sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates, which by definition, seldom equal the actual results. In addition, management makes judgements in applying Altia's accounting policies.

Estimates made in the preparation of the financial statements, and related assumptions, are based on the management's best knowledge at the reporting date. Consequently, the realised results can differ from the estimates. Any changes in estimates and assumptions are recognised when estimates and assumptions are corrected.

The Group's most significant area in which the management has exercised judgement is related to the revenue recognition (Note 1.1, p. 116) and impairment provision of trade receivables, and useful lives of intangible assets and parameters used in impairment testing (Note 2.1., p. 121). Other critical future assumptions and anticipated uncertainties at the reporting date, which pose a significant risk of resulting in material changes in the carrying amounts of assets and liabilities within the next financial year, are related to employee benefits (Note 2.6., p. 129) and deferred taxes (Note 6.1., p. 156).

1. Operating result

1.1. REVENUES FROM OPERATIONS

Revenue recognition

The revenue is recognised at an amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price may include variable considerations such as volume discounts, bonuses, marketing support, product returns etc. The variable considerations are estimated using the most likely value method if not yet realised in the end of reporting period. The revenue is further adjusted with indirect sales taxes, excise taxes, deposit and recycling fees and exchange rate differences relating to sales.

Typical contracts with customers include a sale of goods to a customer with only one performance obligation. In contract services the contracts essentially include of a single performance obligation, being a series of distinct services such as contract manufacturing, customer services and logistics. The revenue recognition occurs at a point in time, when the control of the goods is transferred to the customer according to the delivery terms. Revenue from the sale of services is recognised at the time of delivery of services.

The most significant revenue flows are generated by the sale of own products and partner brands. In addition, revenues are generated by contract manufacturing, as well as the sale of industrial products, such as starch, feed and technical ethanol. Adjustments to sales and obligations to repurchase certain products are taken into account in the revenue recognition phase.

In partner supplier agreements, which entitle Group to distribute partners' products, Altia acts as a principal towards the end customer having control over the product, discretion in establishing prices and owning the inventory. Accordingly, revenue recognised is the gross amount to which Altia is entitled to in these product sales.

The amount of excise tax deducted from sales revenue is significant. The amounts of sales including tax and excise taxes are presented below:

EUR million	2018	2017
Sales revenues deducted with revenue adjustments	801.6	804.5
Excise tax	-444.3	-445.5
NET SALES	**357.3**	**359.0**
Tax share of sales revenues, %	55.4%	55.4%

1.2. SEGMENT INFORMATION

Description of segments and principal activities

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments.

The Board of Directors of Altia has been determined as the Company's current chief operative decision maker, and the reportable segments are based on the Altia's operating structure and internal reporting to the CODM used to assess the performance of the segments. For internal reporting purposes, reporting on the segment profit is based on an internal measure of a comparable EBITDA derived as follows:

- Net sales and direct segment expenses reported within the Comparable EBITDA segment profit measure are measured on an accrual basis and reported under the same accounting principles as in the consolidated accounts.
- Expenses allocated to the segments related to shared function costs or business support services expenses comprise costs such as centralised marketing costs, IT infrastructure related costs, shared support services, headquarter costs including finance and treasury, communication, legal and human resource related costs as well as certain warehousing and service fees. For internal reporting purposes these cost allocations are based on budgeted amounts and variances from budgeted amounts are presented under column "Unallocated and adjustments" and can result in either incurred overruns or savings compared to budgeted amounts. All of these variances are not allocated to the segments for internal reporting purposes.
- The unallocated and adjustments column represents in addition to the budget variances, certain unallocated headquarter costs.

Segment net sales and results

The following tables set out the segment net sales and Comparable EBITDA as well as the reconciliation of the Comparable EBITDA to the Group's operating result:

	1 Jan–31 Dec 2018				
EUR million	Finland & Exports	Scandinavia	Altia Industrial	Unallocated and adjustments	Group
Net sales, total	134.4	118.6	149.8		402.8
Net sales, Internal	-0.6	-0.9	-44.0		-45.5
Net sales, external	**133.8**	**117.7**	**105.8**		**357.3**
Comparable EBITDA	19.2	10.1	10.9	-0.3	40.0
Items affecting comparability[1)]					-6.0
EBITDA					**34.0**
Depreciation, amortisation and impairment					-14.4
OPERATING RESULT					**19.7**

	1 Jan–31 Dec 2017				
EUR million	Finland & Exports	Scandinavia	Altia Industrial	Unallocated and adjustments	Group
Net sales, total	134.4	124.4	148.7		407.5
Net sales, Internal	-0.5	-0.7	-47.4		-48.6
Net sales, external	**133.9**	**123.7**	**101.3**		**359.0**
Comparable EBITDA	19.6	11.5	12.5	-1.1	42.4
Items affecting comparability[1)]					-2.1
EBITDA					**40.3**
Depreciation, amortisation and impairment					-14.2
OPERATING RESULT					**26.1**

1) Items affecting comparability comprise of material items incurred outside normal business, such as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development. Gains on sale of property, plant and equipment and intangible assets are presented in Note 1.3, (p. 119) and employee costs related to restructuring in Note 1.5 (p. 119).

Other entity-wide disclosures

Net sales by geography

Net sales broken down by the location of Altia entity for the years ended 31 December 2018 and 2017 were as follows:

EUR million	2018	2017
Finland	205.4	202.4
Sweden	90.7	96.1
Norway	23.5	23.7
Estonia	8.7	10.3
Latvia	9.8	9.4
Denmark	11.7	12.7
Other countries	7.5	4.3
NET SALES, TOTAL	**357.3**	**359.0**

In Finland & Exports segment, net sales of EUR 77.4 million (2017: EUR 80.5 million) were derived from a single external customer. In Scandinavia segment, net sales of EUR 75.4 million (2017: EUR 78.8 million) were derived from a single external customer. In Altia Industrial segment, net sales of EUR 42.5million (2017: EUR 44.5 million) were derived from a single external customer. No other single external customer represented more than 10 per cent or more of Altia's total net sales for the years ended 31 December 2018 or 2017.

Net sales by product category

Net sales broken down by product category for the years ended 31 December 2018 and 2017 were as follows:

EUR million	2018	2017
Spirits	124.0	125.9
Wine	122.2	124.7
Other beverages	5.3	8.4
Industrial products and services	105.8	101.3
Other	-	-1.3
NET SALES BY PRODUCT CATEGORY, TOTAL	**357.3**	**359.0**

Non-current assets by geography

The total of non-current assets other than financial instruments and deferred tax assets broken down by the location of the assets as at 31 December 2018 and 2017 were as follows:

EUR million	2018	2017
Finland	112.5	115.7
Sweden	44.0	48.2
Norway	0.0	0.1
Estonia	2.3	2.6
Latvia	0.2	0.2
Denmark	6.5	7.2
Other countries	9.4	9.8
NON-CURRENT ASSETS BY GEOGRAPHY, TOTAL	**174.9**	**183.8**

1.3. OTHER OPERATING INCOME

Other operating income mainly includes gains on the disposal of non-current assets, income from sale of energy, water, steam and carbon dioxide, rental income and related non-core business service income and contract termination fees.

EUR million	2018	2017
Gains on sale of property, plant and equipment and intangible assets	0.5	1.6
Gains on sale of emission allowances	0.4	-
Rental income	1.4	1.0
Income from sale of energy, water, steam and carbon dioxide	3.4	3.4
Other income	1.6	2.3
TOTAL	**7.4**	**8.3**

1.4. MATERIALS AND SERVICES

EUR million	2018	2017
Raw materials, consumables and goods		
Purchases during the period	210.1	196.6
Change in inventories	-5.1	1.9
Scrapping and obsolescence	0.0	2.0
External services	1.8	1.6
TOTAL	**206.8**	**202.0**

Materials and services consist of cost of material, such as barley, wine, different spirit, liquids, ground water as well as other ingredients needed for a variety of different drinks, packaging materials, production costs, changes in inventories, scrapping and obsolescence costs and external services such as logistics and warehousing.

1.5. EMPLOYEE BENEFIT EXPENSES

EUR million	2018	2017
Wages and salaries	37.9	40.4
Pension expenses		
Defined contribution plans	7.1	5.9
Other social expenses	4.9	5.8
TOTAL	**49.9**	**52.0**

In Altia, the total wages and salaries of personnel consists of fixed and variable pay, allowances, short and long-term incentives and fringe benefits.

The Group has recognised the total amount of incentives EUR 1.6 million (2017: EUR 3.3 million) in the form of cash bonuses. Employee benefit expenses include personnel related restructuring costs of EUR 1.0 million (2017: EUR 1.1 million). The group has recognised the total amount of EUR 0.7 million (2017: -) of closed voluntary pension scheme.

Average number of personnel during the period	2018	2017
Workers	274	294
Clerical employees	444	468
TOTAL	**718**	**762**

More information on the Group's pension plans is presented in Note 2.6 (p. 129). Information of management remuneration is presented in Note 6.3. (p. 161) related party transactions.

1.6. OTHER OPERATING EXPENSES

EUR million	2018	2017
Losses on sales and disposals of property, plant and equipment and intangible assets	0.2	0.2
Rental expenses	5.7	6.0
Marketing expenses	13.7	15.1
Travel and representation expenses	3.0	2.8
Outsourcing services	10.5	8.9
Repair and maintenance expenses	6.9	6.8
Energy expenses	7.4	7.2
IT expenses	6.9	6.5
Variable sales expenses	12.6	11.3
Other expenses	7.1	8.1
TOTAL	**73.9**	**72.9**

Auditor's fees included in other operating expenses	2018	2017
Audit fees	0.3	0.3
Tax consultation	0.0	0.0
Other fees	0.5	0.4
TOTAL	**0.8**	**0.7**

The table above presents fees to PricewaterhouseCoopers globally during the year. Non-audit fees to PricewaterhouseCoopers Oy in 2018 amounted to EUR 0.6 million, of which major part relating to the IPO in spring 2018.

Rental expenses include leases treated as operating lease, when the lessor retains the risks and rewards of ownership for the leased asset. Payments made under operating lease are recognised as expenses on a straight-line basis over the lease term. Altia leases office space, cars and forklifts under operating lease.

1.7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation and amortisation by asset categories is as follows:

EUR million	2018	2017
Amortisation on intangible assets		
Trademarks	4.3	4.4
Software and other intangible assets	1.5	1.1
Total amortisation	**5.8**	**5.5**
Depreciation on property, plant and equipment		
Buildings	3.3	3.2
Machinery and equipment	5.0	5.2
Machinery and equipment, acquired through finance leases	0.2	0.3
Other tangible assets	0.0	0.0
Total depreciation	**8.6**	**8.7**
TOTAL DEPRECIATION AND AMORTISATION	**14.4**	**14.2**

Group's depreciation and amortisation methods and periods are described in Note 2.1. (p. 121) Goodwill and other intangible assets and in Note 2.2. (p. 125) Property, plant and equipment.

1.8. RESEARCH AND DEVELOPMENT EXPENDITURES

Operating result includes research and development expenditures amounting to EUR 3.3 million (2017: EUR 3.4 million). The R&D expenditures represents 0.9% of net sales in 2018 (2017: 0.9%).

2. Operative assets and liabilities

2.1. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets other than goodwill are recorded at historical costs and depreciated over their useful lives. Intangible assets include goodwill, trademarks, software and other intangible assets and prepayments.

Goodwill

Goodwill arising on the business acquisition is recognised as the excess of the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

For the purpose of impairment testing, goodwill is allocated to the groups of cash-generating units (CGU) that are expected to benefit from the business combinations in which the goodwill was generated. Impairment testing is described in more detail later in this note.

Other intangible assets

Other intangible assets include intangible rights, other intangible assets and prepayments for intangible assets. Intangible assets such as patents and IT-software, with finite useful lives, are recognised in the balance sheet at the original acquisition cost less accumulated amortisation and possible impairment.

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives.

The estimated useful lives of intangible assets are as follows:

Trademarks	10–15 years
IT-development and software	3–5 years

The costs related to the intangible assets are capitalised if it can be demonstrated that the asset will generate the future economic benefits, the entity controls the asset and the cost of the asset can be measured reliably. All other expenditure is recognised as an expense as incurred.

Expenditure on research activities is recognised in profit or loss in the period in which it is incurred. The Group has no projects related to the development activities of new products or processes qualifying for the identifiability and other criteria regarding capitalisation under IFRS.

Accounting for emission allowances is described in Note 6.2. (p. 160). Emission allowances are presented as off-balance sheet items.

Critical estimates and management judgements – Useful lives of trademarks

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives. Management has estimated the useful lives of trademarks to be in a range from 10 to 15 years. However, the actual useful life may be shorter or longer than the estimated range depending on the market trends and customer behavior.

GOODWILL AND OTHER INTANGIBLE ASSETS

EUR million	Goodwill	Trademarks	Software and other intangible assets	Prepayments	Other intangible assets total
Acquisition cost at 1 January 2018	133.3	126.7	19.3	2.8	148.7
Additions	-	-	0.0	1.5	1.5
Disposals	-	-	-0.0	-	-0.0
Effect of movement in exchange rates	-5.3	-2.9	-0.0	-	-2.9
Transfers between items	-	0.1	2.5	-2.6	0.0
Acquisition cost at 31 December 2018	128.0	123.8	21.8	1.7	147.3
Accumulated amortisation and impairment losses at 1 January 2018	-51.3	-99.3	-15.1	-	-114.4
Amortisation	-	-4.3	-1.5	-	-5.8
Accumulated amortisation on disposals and transfers	-	-	0.0	-	0.0
Effect of movement in exchange rates	4.0	2.4	0.0	-	2.4
Accumulated amortisation and impairment losses at 31 December 2018	-47.3	-101.2	-16.5	-	-117.8
Carrying amount at 1 January 2018	82.1	27.4	4.2	2.8	34.4
CARRYING AMOUNT AT 31 DECEMBER 2018	**80.7**	**22.6**	**5.3**	**1.7**	**29.6**

EUR million	Goodwill	Trademarks	Software and other intangible assets	Prepayments	Other intangible assets total
Acquisition cost at 1 January 2017	144.7	129.9	18.8	1.7	150.4
Additions	-	-	-	3.8	3.8
Disposals	-	-	-2.2	-	-2.2
Effect of movement in exchange rates	-11.4	-3.2	-0.0	-	-3.3
Transfers between items	-	-	2.7	-2.7	-0.0
Acquisition cost at 31 December 2017	133.3	126.7	19.3	2.8	148.7
Accumulated amortisation and impairment losses at 1 January 2017	-61.6	-97.7	-16.0	-	-113.7
Amortisation	-	-4.4	-1.1	-	-5.5
Accumulated amortisation on disposals and transfers	-	-	2.0	-	2.0
Effect of movement in exchange rates	10.4	2.8	0.0	-	2.9
Accumulated amortisation and impairment losses at 31 December 2017	-51.3	-99.3	-15.1	-	-114.4
Carrying amount at 1 January 2017	83.1	32.2	2.9	1.7	36.7
CARRYING AMOUNT AT 31 DECEMBER 2017	**82.1**	**27.4**	**4.2**	**2.8**	**34.4**

The most significant trademarks include Renault, Larsen, Xanté, Blossa, Chill Out, Explorer, Grönstedts, Bröndums, 1-Enkelt and Arsenitch. Software and other intangible assets are mainly computer software.

Impairment testing

Book value of assets are assessed to determine whether there is any impairment at least at the end of each financial year. If any evidence of impairment emerges (a triggering event), the assets' recoverable amount is estimated. The recoverable amount is determined on the basis of value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is immediately recognised in profit or loss and the estimated useful life of the asset in question is reassessed when an impairment loss is recognised. The recoverable amounts of goodwill and intangible assets not yet available for use are estimated annually. The need for recognising an impairment loss is assessed at cash-generating unit level. This level is essentially independent from other units with separate cash flows.

The impairment loss is reversed if there has been such a positive change in the estimates used to determine the recoverable amount of the asset or cash-generating unit that recoverable amount of the asset will increase the book value of asset. Impairment losses are only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. An impairment loss on goodwill is never reversed.

Critical estimates and management judgements – Impairment testing:

The preparation of calculations for the impairment testing of goodwill requires estimates regarding the future. The management's estimates and related critical uncertainties are related to the components of the recoverable amount calculation, including the discount rate, the terminal growth rate and development of the net sales and operating result, including estimated cost levels of main raw materials and energy. The discount rates reflect current assessments of the time value of money and relevant market risk premiums reflecting risks and uncertainties for which the future cash flow estimates have not been adjusted. The discount rates used, expected net sales growth rates and profitability levels, including sensitivity analyses, are stated below.

Impairment testing of goodwill

Allocation of goodwill

Goodwill is allocated to groups of cash-generating units (CGU) that represent the level on which the management monitors the goodwill.

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments. Goodwill is monitored by management at the level of the operating segments.

A segment-level allocation of the goodwill at 31 December 2018 and 2017 is presented below:

EUR million	2018	%	2017	%
Finland & Exports	46.8	58.0%	46.5	56.6%
Scandinavia	33.9	42.0%	35.6	43.4%
TOTAL	**80.7**	**100.0%**	**82.1**	**100.0%**

Impairment testing

The key assumptions in impairment testing are operating result and discount rate.

The goodwill allocated to the Group's cash-generating units is tested for impairment annually or when there is reason to assume that the carrying amount has exceeded the recoverable amount, with the carrying amount compared to the recoverable amount in the testing. The annual impairment tests have been carried out on 31 October 2018 and 31 October 2017. At the time of testing, the companies did not have intangible assets with indefinite useful lives other than goodwill.

The cash flow estimates used are based on CGU-specific financial plans for the following year approved by the Group's management. The forecast period applied for the calculations covers five years, beyond which the cash flow projections are extrapolated using a constant market-specific growth rate estimate. The forecasted cash flows for a longer term than this have been estimated by using an annual growth rate estimate of 1.0%. In the view of the management, these growth estimates represent the development of business operations in the longer term pursuant to the forecasts.

The market-specific WACC estimates are based on external market-specific references. Management makes judgements regarding the development of assumptions other than WACC based on internal and external views of the industry's history and future.

The weighted average costs of capital used as discount rates for the cash flow estimates are presented in the enclosed table:

Used pre-tax discount rate %	2018	2017
Finland & Exports	7.1%	7.0%
Scandinavia	6.8%	6.8%

The estimated average operating margins used in the calculations are presented in the enclosed table:

Projected average operating result %	2018	2017
Finland & Exports	13.1%	14.5%
Scandinavia	8.7%	9.3%

Based on the analyses prepared by the company, no reasonably possible change in any of the key assumptions would cause any of the tested unit's recoverable amount to decrease to be equal to its carrying amount.

2.2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

Property, plant and equipment mainly consist of manufacturing and warehouse buildings, land, and machinery and equipment used in alcoholic beverage industry. Property, plant and equipment are measured at historical cost less accumulated depreciation and possible impairment losses. If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. The subsequent costs related to the items of property, plant and equipment are capitalised only if the future economic benefits exceed the originally assessed standard of performance. All other expenditure, for example ordinary maintenance and repair costs, is recognised as an expense as incurred. Depreciation is recognised on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated.

Government grants, for example grants received from the State, are recognised in profit or loss in the same period in which the related expenses are recognised. Grants that compensate the Group for the acquisition of property, plant and equipment are deducted from the carrying amount adjusted with the grant received.

Investment properties are properties held by the Group in order to earn rental income or for capital appreciation. Investment properties are measured at cost less accumulated depreciation and impairment losses. Fair values of investment properties are determined based on a valuation carried out by an external property valuator.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10–40 years
Machinery and equipment	10 years
Other tangible assets	3–10 years

The estimated useful lives and residual values are reviewed at each financial year-end, and if they differ substantially from the previous estimates, the depreciation periods are adjusted accordingly. Impairment loss is recognised in profit or loss to the extent the assets carrying value exceeds its recoverable amount.

Gains and losses on the disposals of property, plant and equipment are included in other operating income or expenses.

Financial leasing

Lease contracts of property, plant and equipment, in which Altia assumes substantially all the risks and rewards of ownership are classified as finance leases. Altia leases laptops and copying machines under finance leases. An asset leased through a finance lease is recognised in property, plant and equipment based on its nature and measured at the lower of its fair value and present value of the minimum lease payments at the inception of the lease term. The respective finance lease liabilities, less finance charges, are included in other non-current borrowings.

An asset acquired through a finance lease is depreciated over the shorter of the asset´s useful life and the lease term.

PROPERTY, PLANT AND EQUIPMENT

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and assets under construction	Total
Acquisition cost at 1 January 2018	3.0	108.2	124.0	0.8	4.7	240.7
Additions	-	0.1	0.7	0.0	5.4	6.2
Disposals	-0.0	-0.5	-1.6	-	-	-2.1
Effect of movement in exchange rates	-	-0.0	-0.2	-0.0	-	-0.3
Transfers between items	-	1.7	6.9	-	-8.6	0.0
Acquisition cost at 31 December 2018	3.0	109.5	129.8	0.8	1.5	244.6
Accumulated depreciation and impairment losses at 1 January 2018	0.0	-79.5	-93.7	-0.1	-	-173.3
Depreciation	-	-3.3	-5.3	-0.0	-	-8.6
Accumulated depreciation on disposals and transfers	-	0.5	1.4	-	-	1.9
Effect of movement in exchange rates	-	0.0	0.1	-	-	0.2
Accumulated depreciation and impairment losses at 31 December 2018	0.0	-82.4	-97.4	-0.2	-	-179.9
Carrying amount at 1 January 2018	3.0	28.7	30.3	0.6	4.7	67.4
CARRYING AMOUNT AT 31 DECEMBER 2018	**3.0**	**27.1**	**32.4**	**0.6**	**1.5**	**64.6**
Acquisition cost at 1 January 2017	4.8	116.4	120.9	0.8	2.5	245.4
Additions	-	0.0	0.6	-	7.4	8.1
Disposals	-1.8	-10.4	-0.3	-	-	-12.5
Effect of movement in exchange rates	-0.0	-0.0	-0.2	0.0	-0.0	-0.3
Transfers between items	-	2.2	3.1	-	-5.2	0.0
Acquisition cost at 31 December 2017	3.0	108.2	124.0	0.8	4.7	240.7
Accumulated depreciation and impairment losses at 1 January 2017	-1.8	-84.7	-88.8	-0.1	-	-175.4
Depreciation	-	-3.2	-5.5	-0.0	-	-8.7
Accumulated depreciation on disposals and transfers	1.8	8.4	0.4	-	-	10.5
Effect of movement in exchange rates	0.0	0.0	0.2	-	-	0.2
Accumulated depreciation and impairment losses at 31 December 2017	0.0	-79.5	-93.7	-0.1	-	-173.3
Carrying amount at 1 January 2017	3.0	31.8	32.1	0.6	2.5	70.0
CARRYING AMOUNT AT 31 DECEMBER 2017	**3.0**	**28.7**	**30.3**	**0.6**	**4.7**	**67.4**

Land and water areas includes investment properties with book value of EUR 0.0 million in 2018 (2017: EUR 0.0 million). Investment properties are measured based on the cost model. At 31 December 2018 the fair value of investment properties was EUR 2.8 million (2017: EUR 2.8 million).

Property, plant and equipment include assets acquired under finance lease as follows:

FINANCE LEASES

EUR million	2018	2017
Machinery and equipment		
Acquisition cost at 31 December	1.2	1.4
Accumulated depreciation at 31 December	-0.8	-1.1
CARRYING AMOUNT AT 31 DECEMBER	**0.4**	**0.3**

2.3. INVENTORIES

Inventories

Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices, except cognac products, which are measured at weighted average cost. Fixed production costs are allocated to the cost of own production.

Raw materials, supplies and trading goods are measured at weighted average cost. Semi-finished products are measured at weighted average cost, except semi-finished products produced in Estonia, which are measured at standard prices. Repacked trading goods are measured at standard cost in repacking plant.

The cost of finished products and work in progress includes raw materials, direct labour costs, other direct costs as well as an allocable proportion of variable procurement and production costs and fixed overheads in case of finished products, determined based on normal operating capacity.

Net realisable 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.

INVENTORIES

EUR million	2018	2017
Materials and supplies	53.8	50.1
Work in progress	10.5	12.7
Finished goods	15.9	13.8
Goods	19.3	17.9
Advance payments	0.2	0.1
TOTAL	**99.6**	**94.5**

Altia recognised write-downs of inventories amounting to EUR 1.3 million in 2018 (2017: EUR 1.8 million).

2.4. CONTRACT ASSETS (CURRENT)

Contract assets represent the amount which Altia has right to receive goods expected to be returned to inventory with respect to return clauses in the contracts. Contract assets are measured at the former carrying amount of the inventory less any expected costs to recover the goods and less any impairment losses.

EUR million	2018	2017
Contract assets	0.2	-
TOTAL	**0.2**	**-**

2.5. TRADE AND OTHER RECEIVABLES

Trade and other receivables

Trade receivables are carried at original invoiced amount less any impairment losses. An impairment loss is recognised immediately in profit and loss. Impairment provisions are recognised based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. The impairment provision is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward looking and expected default rates are based on historical realised credit losses. The lifetime expected credit loss provision is calculated using aging of the accounts receivable and regional portfolios. In 2017 the provision for impairment losses was based on aging of receivables due over 120 days.

Sold trade receivables are derecognised from the balance sheet as soon as the receivable is sold and the price has been received. At the time of sale, the Group derecognises the trade receivable as the contractual rights to these cash flows expire and all the related substantial risks and rewards have been transferred outside the Group. The costs related to the sold receivables are recognised in Other finance expenses.

TRADE AND OTHER RECEIVABLES

EUR million	2018	2017
Trade receivables	55.4	48.1
Accrued income	1.7	1.8
Receivables on derivative instruments	1.6	1.4
Other receivables	2.3	2.6
TOTAL	**60.9**	**53.9**

At the end of the reporting period 2018 the sold trade receivables amounted to EUR 80.2 million (2017: EUR 83.6 million). Trade receivables from associated companies and joint operations are presented in Note 6.3 (p. 161).

AGEING ANALYSIS OF TRADE RECEIVABLES

EUR million	2018	1.1.2018	2017
Trade receivables not past due	50.7	44.7	44.7
Trade receivables past due 1-90 days	4.4	3.5	3.5
Trade receivables past due over 90 days	0.5	0.2	0.2
Impairment losses	-0.3	-0.2	-0.3
TOTAL	**55.4**	**48.2**	**48.1**

The realised impairment losses recognised on trade receivables during the year 2018 amounted to EUR 0.1 million (2017: EUR 0.2 million).

The Group applies the IFRS 9 requirement of recognition of impairment provisions based on expected credit losses (ECL). The loss allowance for trade receivables is based on the ageing of the accounts receivable and regional portfolios. The expected loss rate for all trade receivables is 0,1% and in addition receivables more than 120 days due are impaired with 60% expected loss rate. The receivables of the monopolies in Finland and Sweden are excluded due to the nature of the customer and related credit risk (government entities). Forward looking macro-economic information has been included in the analysis.

2.6. EMPLOYEE BENEFIT OBLIGATIONS

Pension plans

Pension plans are classified as either defined contribution plans or defined benefit plans.

Contributions to defined contribution pension plans are recognised through profit or loss in the periods during which the services are rendered by the employees. The Group has no legal or constructive obligation to make additional payments if the party receiving the payments is not able to perform the pension benefits in question. All other plans that do not meet these conditions are classified as defined benefit plans.

Defined benefit plans are financed with payments to pension insurance companies. The obligation in respect of defined benefit pension plans is calculated using the projected unit credit method separately for each plan. Pension expenses are recognised in periods during which services are rendered by employees participating the plan according to actuarial calculations prepared by qualified actuaries. The amount recognised as a defined benefit liability or asset comprises the net total of the following items: the present value of the defined benefit obligation and the fair value of the plan assets. The discount rate used to determine the present value of the defined benefit obligation is the yield on high quality corporate or government bonds with a similar maturity to that of the pension obligation.

Current service cost and the net interest on net defined benefit liability is recognised in profit or loss. The pension expense is disclosed under the employee benefit expenses and the net interest is disclosed under financial items. Items arising from the remeasurement of net defined benefit liability are recognised in other comprehensive income during the period in which they occur.

Past service cost is expensed at the earlier of the following dates: when the plan amendment or curtailment occurs or when the entity recognises related restructuring costs or termination benefits.

Critical estimates and management judgements – Defined benefit pension obligations:

Measurement of defined benefit pension obligation and plan assets is based on the actuarial assumptions made by management. These include e.g. the discount rate used in calculating the present value of the obligation, future salary and pension level, expected return on plan assets and the turnover of personnel included in the plan. Changes in the actuarial assumptions, as well as differences between expected and realised values result in actuarial gains and losses.

Group’s pension arrangements

The Group operates various pension plans in accordance with local conditions and practices in different countries. In the Finnish companies, statutory pension obligations (TyEL) are arranged through insurance companies, when the TyEL plan is a defined contribution plan. The defined contribution plans are applied also in other countries and the foreign subsidiaries manage their pension plans in accordance with local legislation and established practice.

The Group has defined benefit pension plans for supplementary pension in Norway and France.

In defined benefit pension plans, the amount of the pension benefit at retirement is calculated on the basis of salary, years of service and life expectancy. The Norwegian and French pension plans cover only few employees, thus the related pension liabilities are not material for the Group.

DEFINED BENEFIT PENSION LIABILITY IN THE BALANCE SHEET

EUR million	2018	2017
Present value of unfunded obligations	1.1	1.2
Taxes, Norway	0.2	0.2
NET PENSION LIABILITY IN THE BALANCE SHEET	**1.3**	**1.3**

DEFINED BENEFIT PENSION EXPENSE IN PROFIT OR LOSS

EUR million	2018	2017
Current service cost	-	0.0
Net interest	-0.0	-0.0
Tax effect, Norway	-0.0	-0.0
PENSION EXPENSES RECOGNISED IN PROFIT OR LOSS, PROFIT (+), LOSS(-)	**-0.0**	**-0.0**

ITEMS OF OTHER COMPREHENSIVE INCOME

EUR million	2018	2017
Remeasurements		
Return on plan assets, excluding interest income and interest expense	-	0.0
Gain (loss) related to changes in demographic assumptions	0.0	-
Gain (loss) related to changes in financial assumptions	-0.0	-0.0
Experience adjustment - gain (loss)	-	-0.0
Tax effect, Norway	0.0	-0.0
TOTAL COMPREHENSIVE INCOME	**0.0**	**-0.0**

CHANGES IN PENSION OBLIGATION AND FAIR VALUE OF PLAN ASSETS IN THE BALANCE SHEET

EUR million	2018	2017
Present value of the obligation:		
Obligation at 1 January	1.3	1.8
Service cost	-	0.0
Interest cost	0.0	0.0
Benefits paid	-0.2	-0.3
Exchange differences	-0.0	-0.3
Remeasurement gains (-) and losses (+)	-0.0	-0.0
Tax effect, Norway	0.2	0.2
OBLIGATION AT 31 DECEMBER	**1.3**	**1.3**

EUR million	2018	2017
Fair value of plan assets:		
Contributions paid by employer to the plan	-0.2	-0.1
Benefits paid	0.2	0.1
FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER	**-**	**-**

SIGNIFICANT ACTUARIAL ASSUMPTIONS

	2018	2017
Norway		
Discount rate	2.0%	1.9%
Future pension growth	2.0%	2.0%

2.7. TRADE AND OTHER PAYABLES

EUR million	2018	2017
Current		
Trade payables	25.8	29.2
Accruals for wages and salaries and social security contributions	1.1	3.6
Interest liabilities	0.3	0.1
Other accrued expenses	19.2	18.0
Derivative liabilities	1.5	1.5
Excise tax	48.8	50.1
VAT liability	27.6	26.9
Other liabilities	7.0	7.9
TOTAL	**131.4**	**137.4**

2.8. CONTRACT LIABILITIES

Contract liabilities represent the amount received or receivable that is expected to be returned as a refund liability.

EUR million	2018	2017
Current		
Contract liabilities	0.6	-
TOTAL	**0.6**	**-**

2.9. PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. The amount recognised as provision is the management's best estimate of the costs required to settle the existing obligation at the end of the reporting period. If part of the obligation may potentially be compensated by a third party, the compensation is recognised as a separate asset when it is virtually certain that the compensation will be received.

A provision for restructuring is recognised when a detailed restructuring plan has been prepared, and the implementation of the plan has either been commenced or the plan has been announced to those who are affected.

Other provisions relate to the cost on excise tax class revision of two products based on a preliminary outcome of a tax audit In Finland. Altia is taking measures to contest the outcome.

Restructuring provisions included mainly costs for various projects to streamline operations and consists of employee termination benefits.

PROVISIONS

EUR million	Other provisions	Total
Provisions at 31 December 2017	-	-
Provisions made during the year	0.5	0.5
Provisions used during the year	-	-
PROVISION AT 31 DECEMBER 2018	**0.5**	**0.5**
Current	0.5	0.5
Non-Current	-	-

EUR million	Restructuring	Restoration	Total
Provision at 31 December 2016	0.7	0.6	1.3
Provisions made during the year	-	-	-
Provisions used during the year	-0.7	-0.6	-1.3
PROVISION AT 31 DECEMBER 2017	**-**	**-**	**-**
Currrent	-	-	-
Non-Current	-	-	-

3. Financial items and capital structure

3.1. FINANCE INCOME AND EXPENSES

FINANCE INCOME

EUR million	2018	2017
Interest income		
Forward points on FX-forwards	-	0.2
Loans, receivables and cash and cash equivalents	0.1	0.1
Total interest income	**0.1**	**0.3**
Foreign exchange gains		
Foreign exchange gains on FX-derivatives	1.2	1.7
Foreign exchange gains on I/C loans and cash pool accounts	2.1	2.4
Total foreign exchange gains	**3.3**	**4.0**
Dividend income		
Fair value through other comprehensive income	0.1	-
Available-for-sale financial assets	-	0.2
Total dividend income	**0.1**	**0.2**
TOTAL FINANCE INCOME	**3.5**	**4.5**

Foreign exchange differences arising from trade receivables and trade payables amounting to EUR 0.2 million (2017: EUR -0.1 million) and from currency derivatives amounting to EUR 1.7 million (2017: EUR 0.1 million) are included in operating result.

FINANCE EXPENSES

EUR million	2018	2017
Interest expenses		
Forward points on FX-forwards	0.0	0.1
Financial liabilities at amortised cost	1.3	1.1
Derivatives under hedge accounting (Interest rate risk)	0.4	0.4
Other interest expenses, pension liability	0.0	0.0
Total interest expenses	**1.7**	**1.6**
Foreign exchange losses		
Foreign exchange losses on FX-derivatives	2.0	3.2
Foreign exchange losses on I/C loans and cash pool accounts	1.4	1.0
Total foreign exchange losses	**3.4**	**4.1**
Other finance expenses		
Other financial expenses	0.8	0.7
Ineffective portion of commodity derivatives under hedge accounting	-	-0.0
Total other finance expenses	**0.8**	**0.7**
TOTAL FINANCE EXPENSES	**5.8**	**6.4**

Interest expenses include finance lease related interest expenses amounting to EUR 0.0 million in 2018 (2017: EUR 0.0 million).

3.2. FINANCIAL ASSETS AND LIABILITIES

3.2.1 FINANCIAL ASSETS

The Group's financial assets were classified according to IAS 39 as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

According to IFRS 9 the classification is business model driven and there are three classes: fair value through profit and loss, amortised cost (replaces Loans and receivables) and fair value through other comprehensive income (replaces Available-for-sale). Classification is made upon initial recognition based on the purpose of use of the asset. The basis of classification is reassessed at each reporting date.

Application of IFRS 9 did not have any impact on the recognition or measurement of the Group's financial assets. All purchases and sales of financial instruments are recognised on the trade date, which is the date when the Group commits to purchase or sell a financial instrument. Financial assets are recognised in the balance sheet at original cost which equals their fair value at the acquisition date. If the asset in question is not measured at fair value through profit or loss, transaction costs are included in the original cost of the financial asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or the Group transfers all the substantial risks and rewards related to the financial asset outside the Group. Financial assets are included in non-current items of the balance sheet when their maturity is over 12 months.

Impairment of financial assets

The new impairment model requires the recognition of impairment provision based on expected credit losses rather than only incurred credit losses as in IAS 39. The impairment provision is recognised based on lifetime expected credit losses from trade receivables and contract assets. More information on the impairment provision on trade receivables can be found in note 2.5. (p. 129). Trade and other receivables.
The impairment model does not apply to financial assets measured at fair value and investments in associates and interests in joint operations since those are measured at fair value under IFRS 9 which already takes into account expected credit losses.

Financial assets recognised at fair value through profit or loss

This category includes financial assets held for trading purposes or otherwise designated as financial assets recognised at fair value through profit or loss by Altia Group. Derivative instruments held for hedging purposes, but not qualifying for the criteria of hedge accounting, are classified in this category. Items in this category are initially recognised at fair value and subsequently measured at the fair value of each reporting date, which is the market bid price at the end of the reporting period determined based on public price quotations in active markets. Realised and unrealised gains and losses arising from changes in fair values are recognised in profit or loss in financial items in the period in which they are incurred if they relate to hedging of financial items. If derivative instruments relate to hedging of commercial items (foreign currency denominated purchases and sales) and hedge accounting is applied, the realised and unrealised gains and losses are recognised in income statement as adjustments to purchases and sales and included in operating result.

Amortised cost

Loans and receivables arise when money, goods or services are delivered to a debtor, and they are included in current or non-current financial assets in accordance with their maturity. The assets in this category are held according to a business model of which objective is to collect contractual cash flows. In Altia, non-current receivables include loan receivables and other receivables with the maturity of over one year. Current receivables include trade receivables as well as cash and cash equivalents presented under current financial assets. Receivables are measured at amortised cost when the related payments are fixed or determinable and the instruments are not quoted in financial markets. The exchange rate differences of intra-group foreign currency denominated loan receivables are presented within financial items as foreign exchange differences related to loans. The exchange rate differences of foreign currency denominated trade receivables are presented in income statement as adjustments to sales.

Fair value through other comprehensive income

These assets are non-derivative financial assets which are either designated in this category or not classified in any other category of financial assets. These are included in non-current assets, unless they are intended to be held less than 12 months from the end of the reporting period, in which case they are included in current assets.

Financial assets measured at fair value through other comprehensive income consist of unquoted shares. Unquoted shares are measured at fair value based on market approach valuation techniques using information from market transactions involving comparable assets.

Fair value through other comprehensive income

Fair value through other comprehensive income assets consisted of unquoted shares, amounting to EUR 1.4 million (2017: EUR 1.4 million).

Other receivables

Other receivables consisted of deferred purchase consideration receivable from the sale of Svendborg real-estate amounting to EUR 1.0 million in 2017.

3.2.2 FINANCIAL LIABILITIES

Financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Financial liabilities are initially measured at fair value and recognised net of transaction costs, with the exception of items measured at fair value through profit or loss.

A financial liability (or a part of it) is not derecognised until the obligation specified in the contract is discharged or cancelled or expires. A financial liability is classified as current, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the end of the reporting period.

Adoption of IFRS 9 had no impact on classification and measurement of financial liabilities. The new requirements affected only the accounting financial liabilities that are designated at fair value through profit or loss and Altia does not have such liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives held for hedging purposes but not qualifying for hedge accounting. Financial liabilities in this category are measured at fair value, which is determined based on price quotations in active markets at the reporting date. Realised and unrealised gains or losses arising from the changes in fair values are recognised through profit or loss in the financial items as incurred.

Financial liabilities at amortised cost

This category includes the Group's external loans from financial institutions, loans from pension institutions, commercial paper loans as well as trade payables. These financial liabilities are measured at amortised cost using the effective interest method. When loans are paid off or refinanced, the related unamortised costs are recognised in finance expenses. Group overdrafts in use are included in current borrowings. In addition, Altia has a revolving credit facility and the related fee is amortised on a straight-line basis in other finance expenses during the term of the facility.

The exchange rate differences arising from foreign currency denominated loans from financial institutions are disclosed under financial items. The exchange rate differences of intra-group foreign currency denominated loans are presented within financial items in the foreign exchange differences of the category financial liabilities at amortised cost.

The fair values of loans from financial institutions and commercial paper loans are determined based on future cash flows discounted with market interest rate at the reporting date adjusted with Altia's credit risk premium. At the reporting date, the carrying amounts of the loans are considered to equal their fair values because of the exceptionally low level of market interest rates. The fair values of finance lease liabilities are based on discounted future cash flows. The discount rate is the corresponding interest rate on similar lease contracts.

BORROWINGS

EUR million	2018	2017
Non-current		
Loans from financial institutions	69.8	74.7
Loans from pension institutions	12.8	14.3
Finance lease liabilities	0.2	0.2
TOTAL	**82.7**	**89.1**
Current		
Loans from financial institutions	5.0	10.0
Loans from pension institutions	1.5	0.8
Finance lease liabilities	0.2	0.2
TOTAL	**6.7**	**11.0**

Interest-bearing non-current loans from financial and pension institutions are measured at amortised cost using the effective interest method.

All of the Group's non-current and current loans from financial and pension institutions were nominated in Euros as at 31 December 2018 and 31 December 2017.

The weighted average effective interest rate (p.a.) of the Group's loans from financial and pension institutions as at 31 December 2018 was 1.6% (2017: 1.6%).

The weighted average interest rate (p.a.) of the Group's finance lease liabilities as at 31 December 2018 was 1.2% (2017: 1.5%).

NET DEBT

Movements in Net debt the year ended 31 December 2018 are presented in the following table:

	1 Jan–31 Dec 2018					
EUR million	Cash and cash equivalents	Loans from financial institutions (non current)	Loans from financial institutions (current)	Finance lease liabilities (non-current)	Finance lease liabilities (current)	Total
Net debt as at 1 January 2018	52.4	89.0	10.8	0.2	0.2	47.7
Cash flows	-8.2	-	-10.7	-	-0.2	-2.7
Translation differences	-2.2	-	-	0.0	-	2.2
Other non-cash movement	-	-6.4	6.4	0.0	0.2	0.2
NET DEBT AS AT 31 DECEMBER 2018	**42.0**	**82.5**	**6.5**	**0.2**	**0.2**	**47.4**
Net debt as at 1 January 2017	68.0	64.8	7.5	0.1	0.3	4.7
Cash flows	-13.2	24.3	3.3	-	-0.3	40.4
Translation differences	-2.5	-	-	0.0	-	2.5
Other non-cash movement	-	-0.1	-	0.0	0.2	0.1
NET DEBT AS AT 31 DECEMBER 2017	**52.4**	**89.0**	**10.8**	**0.2**	**0.2**	**47.7**

Derivative instruments

Derivatives are included in financial assets and liabilities at fair value through profit or loss when they do not meet the criteria of hedge accounting pursuant to IFRS 9. These derivatives are recognised at fair value on the trade date and they are subsequently measured at fair value at the reporting date. Derivative instruments and hedge accounting are described in Note 3.3. (p. 140)

The fair values of derivatives equal the amount that the Group would have to pay or it would receive from the termination of the derivative contract at the reporting date. The fair values of forward exchange contracts are determined by using the market prices at the reporting date. The fair values of interest rate derivatives are determined by discounting the related future cash flows. The valuation of commodity derivatives is determined based on the fair values received from the financial markets.

3.2.3. CLASSIFICATION AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

FAIR VALUES AND THE CARRYING AMOUNTS IN THE CONSOLIDATED BALANCE SHEET FOR EACH FINANCIAL INSTRUMENT BY CLASSES

2018 EUR million	Note	Derivatives, hedge accounting	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amounts of items in the balance sheet	Fair value	Level
Financial assets								
Non-current financial assets								
Investments in associates and receivables from interests in joint operations		-	-	7.9	-	7.9	7.9	
Unquoted shares	3.2.1.	-	-	-	1.4	1.4	1.4	3
Current financial assets								
Trade and other receivables	2.5.	-	-	56.6	-	56.6	56.6	
Trade and other receivables/Derivative instruments								
Forward exchange contracts	2.5.	0.1	0.1	-	-	0.2	0.2	2
Commodity derivatives	2.5.	1.3	-	-	-	1.3	1.3	2
Cash and cash equivalents	4.1.	-	-	42.0	-	42.0	42.0	
TOTAL		**1.4**	**0.1**	**106.5**	**1.4**	**109.5**	**109.5**	
Financial liabilities								
Non-current financial liabilities								
Borrowings	3.2.2.	-	-	82.7	-	82.7	82.7	2
Current financial liabilities								
Borrowings	3.2.2.	-	-	6.7	-	6.7	6.7	2
Trade and other payables	2.7.	-	-	26.0	-	26.0	26.0	
Trade and other payables/Derivative instruments								
Interest rate derivatives	2.7.	1.3	-	-	-	1.3	1.3	2
Forward exchange contracts	2.7.	0.1	0.0	-	-	0.1	0.1	2
TOTAL		**1.4**	**0.0**	**115.5**	**-**	**116.9**	**116.9**	

2017 EUR million	Note	Derivatives, hedge accounting	Financial assets / Liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortized cost	Carrying amounts of items in the balance sheet	Fair value	Level
Financial assets									
Non-current financial assets									
Receivables from interests in joint operations		-	-	7.6	-	-	7.6	7.6	
Unquoted shares	3.2.1.	-	-	-	1.4	-	1.4	1.4	3
Loan receivables	3.2.1.	-	-	1.0	-	-	1.0	1.0	2
Current financial assets									
Trade and other receivables	2.5.	-	-	49.7	-	-	49.7	49.7	
Trade and other receivables/Derivative instruments									
Forward exchange contracts	2.5.	0.8	0.3	-	-	-	1.1	1.1	2
Commodity derivatives	2.5.	0.3	-	-	-	-	0.3	0.3	2
Cash and cash equivalents	4.1.	-	-	52.4	-	-	52.4	52.4	
TOTAL		**1.0**	**0.3**	**110.6**	**1.4**	**-**	**113.4**	**113.4**	
Financial liabilities									
Non-current financial liabilities									
Borrowings	3.2.2.	-	-	-	-	89.1	89.1	89.1	2
Current financial liabilities									
Borrowings	3.2.2.	-	-	-	-	11.0	11.0	11.0	2
Trade and other payables	2.7.	-	-	-	-	29.3	29.3	29.3	
Trade and other payables/Derivative instruments									
Interest rate derivatives	2.7.	1.4	-	-	-	-	1.4	1.4	2
Forward exchange contracts	2.7.	0.1	0.0	-	-	-	0.1	0.1	2
TOTAL		**1.5**	**0.0**	**-**	**-**	**129.5**	**131.0**	**131.0**	

At the reporting date due to short maturity fair value of trade receivables and other short-term receivables and liabilities equal to their value in the balance sheet.

The table above presents the classification of financial instruments. The levels 1–3 of fair value hierarchy reflect the significance of inputs used in determining the fair values. In level one, fair values are based on public quotations of identical financial instruments. In level two, the inputs used in determining the fair values are based on quoted market rates and prices observable for the asset or liability in question directly (i.e. price) or indirectly on discounted future cash flows. Fair values of other financial assets and liabilities in level two reflect their carrying value. In level three, the fair values of assets and liabilities are based on inputs that are not based on observable market data for all significant variables, and instead are, to a significant extent, based on management estimates and their use in generally accepted valuation techniques. The reported fair value level is based on the lowest level of input information that is significant in determining the fair value.

3.3. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

When the Group applies IFRS 9 hedge accounting to foreign currency, interest rate and electricity derivatives, the effective portion of the fair value change is recognised in other comprehensive income and presented within equity in the hedge reserve.

When hedge accounting is applied

In Altia, cash flow hedging is applied to part of the interest rate, foreign currency and electricity derivatives based on case-by-case assessment. In cash flow hedging, the Group is hedging against changes in cash flows related to a specific asset or liability recognised in the balance sheet or to a highly probable future business transaction. Hedge accounting is a method of accounting with the purpose to allocate one or several hedging instruments so that their fair value changes offset in full or partly the changes in fair value or cash flow arising from the hedged risk in profit or loss during the period, for which the hedge is designated. In the beginning of the hedging arrangement, Altia documents the relationship between each hedging instrument and hedged item, as well as the objectives of risk management and the strategy in engaging in hedging. IFRS 9 requires that the effectiveness of hedging instruments is tested prospectively. Effectiveness means the ability of a hedging instrument to offset the changes in the fair value of the hedged item or changes in the cash flows of the hedged transaction attributable to the hedged risk. Under IFRS 9 the hedging relationship is regarded to be highly effective when there is an economic relationship between the hedged item and the hedging instrument. Hedging ratio is defined as a relationship between the quantity of the hedging instrument and the quantity of the hedged item. Hedge accounting is discontinued when the criteria for hedge accounting is no longer met.

The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied, are presented in congruence with the hedged item. After implementation of IFRS 9, the forward points are included to hedging relationship. The effective portion of the unrealised changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in other comprehensive income and presented in the hedge reserve in equity. The ineffective portion is immediately recognised in finance income or expenses in profit or loss. The cumulative gain or loss in equity on derivative instruments related to commercial items is recognised in profit or loss as an adjustment to purchases or sales simultaneously with the hedged item in the period in which the hedged item affects profit or loss. Realised gain or loss on electricity derivatives is included in operating result in electricity procurement expenses. When a hedging instrument designated as a cash flow hedge expires, is sold or no longer meets the criteria of hedge accounting, the gain or loss accumulated in equity is recognised through finance income or expenses.

When hedge accounting is not applied

The accounting for gains and losses arising from fair value measurement is dependent on the purpose of use of the derivative. In Altia, the changes in the fair values of derivative instruments are immediately recognised in profit or loss in finance income or expense if the derivative in question is related to hedging of commercial cash flows (purchases and sales) and hedge accounting is not applied. The fair value changes of other derivative instruments are immediately recognised in profit or loss in finance income or expense items if hedge accounting is not applied. Derivatives, to which hedge accounting is not applied, are acquired to minimise the profit and/or cash flow effects related to business operations or financing.

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR million	2018	2017
Derivative instruments designated for cash flow hedging		
Interest rate derivatives	20.0	20.0
Forward exchange contracts	30.9	30.3
Commodity derivatives, electricity	1.9	2.5
	0.1TWh	0.1TWh
Derivative instruments, non-hedge accounting		
Forward exchange contracts	33.7*	24.7

* Total EUR 29.3 million in nominal value relates to hedging internal deposits in currency to parent amounting company amounting the same. These deposits are made in order to mitigate the effects of the banks' negative deposit rates.

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION AND PERFORMANCE

EUR million	AUD		USD		EURNOK		EURSEK	
Foreign currency forwards	2018	2017	2018	2017	2018	2017	2018	2017
Carrying amount (asset)	-	-	0.0	-	0.0	0.1	-	0.6
Carrying amount (liability)	0.0	0.0	-	0.0	-	-	0.0	-
Notional amount	2.0	1.7	2.7	2.8	1.9	2.6	22.1	21.5
Maturity date	Feb–Dec 2019	Feb–Dec 2018	Feb–Dec 2019	Feb–Dec 2018	Feb–Jun 2019	Feb–Dec 2018	Feb–Oct 2019	Feb–Dec 2018
Hedge ratio	1:1	1:1	1:1	1:1	1:1	1:1	1:1	1:1
Change in discounted value of outstanding hedging instruments since 1 January	0.0	-0.1	0.1	-0.2	-0.1	0.2	-0.5	0.8
Change in value of hedged item used to determine hedge effectiveness	-0.0	0.1	-0.1	0.2	0.1	-0.2	0.5	-0.8
Weighted average hedged rate for the year (including forward points)	1.63 AUD/ 1 EUR	1.52 AUD/ 1 EUR	1.18 USD/ 1 EUR	1.20 USD/ 1 EUR	9.74 NOK/ 1 EUR	9.38 NOK/ 1 EUR	10.30 SEK/ 1 EUR	9.57 SEK/ 1 EUR

EUR million Interest rate swap	2018	2017
Carrying amount (liability)	1.3	1.4
Notional amount	20.0	20.0
Maturity date	04/2023	04/2023
Hedge ratio	1:1	1:1
Change in discounted value of outstanding hedging instruments since 1 January	-0.1	-0.5
Change in value of hedged item used to determine hedge effectiveness	0.1	0.5
Weighted average hedged rate for the year	1.88%	1.89%

EUR million Commodities – Electricity	2018	2017
Carrying amount (asset)	1.3	0.3
Notional amount	1.9	2.5
TWh	0.1	0.1
Maturity date	2019–2021	2018–2020
Hedge ratio	1:1	1:1
Change in discounted value of outstanding hedging instruments since 1 January	1.1	0.2
Change in value of hedged item used to determine hedge effectiveness	-1.1	-0.2
Weighted average hedged price EUR/MWh	15.43	24.75

Positive and negative fair values of unrealised derivatives and their net amount are presented below. Interest and currency derivatives are under netting agreements. The master netting agreements in respect of derivatives do not meet the criteria for offsetting in the balance sheet owing to legally enforceable right not existing currently.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

EUR million	2018	2017
Derivative assets:		
Fair value, gross	1.6	1.1
Fair value, under netting agreements	-0.1	-0.2
Fair value, net	1.5	1.0
Derivative liabilities:		
Fair value, gross	1.5	1.5
Fair value, under netting agreements	-0.1	-0.2
Fair value, net	1.4	1.3

3.4. EQUITY

Share capital

Altia Plc's share capital, paid in its entirety and registered in the trade register, was 60,480,378.36 euros at the end of 2018 and 2017. At 31 December 2016, the Company had two class of shares, series A and series L shares. The Board of Directors of the Company has on 13 December 2017 resolved to cancel all 25 003 series L shares, which were held in treasury by the Company and upon registration of such cancellation the Company had no series L shares at 31 December 2017. On 15 December 2017, the sole shareholder of the Company resolved to combine the Company's series A and L shares to single share series and incorporate the shares in the book-entry securities system and amend the company's Articles of Association accordingly on 19 January 2018. At the end of the financial period 2018 there were 36,140,485 shares outstanding and in 2017 there were 35,960,000 A series shares.

Altia Plc together with the State of Finland resolved on the completion of the initial public offering of Altia as a Share sale on 22 March 2018. Public trading on Altia's share started in Nasdaq Helsinki pre -list on 23 March 2018 and in main list on 27 March 2018.

All shares issued have been paid in full. The shares have no nominal value. Each share has one vote at the Annual General meeting and equal rights to dividend and other distribution of assets. The company does not hold its own shares.

NUMBER OF SHARES

	2018	2017
Number of outstanding shares in the beginning of the financial year	35,960,000	35,960,000
Personnel offering	180,485	-
Number of outstanding shares at the end of the financial year	**36,140,485**	**35,960,000**

Share issues

In Altia's initial public offering Altia issued 180,485 personnel shares to permanent employees of Altia in Finland and Sweden (Personnel Offering). The subscription price was ten per cent lower than the subscription price in the Institutional Share Sale and Public Share Sale, i.e. EUR 6.75

Invested unrestricted equity fund

The amounts paid for issued Personnel Shares in Altia's listing have been recorded as invested unrestricted equity fund.

Fair value reserve

The fair value reserve represents the change in the fair value of financial assets measured at fair value through other comprehensive income.

Hedge reserve

The hedge reserve includes the fair value changes of derivative instruments used for cash flow hedging for effective hedges.

CASH FLOW HEDGE RESERVE

EUR million	Currency forwards	Interest rate swaps	Commodities	Total hedge reserves
Opening balance 1 January 2017	**-0.1**	**-1.5**	**0.1**	**-1.4**
Change in fair value of hedging instrument recognised in OCI	0.6	1.1	0.4	2.0
Reclassified from OCI to profit or loss - included in purchases/ sales adjustments	0.1	-	-	0.1
Reclassified from OCI to financial income / expenses.	-	-0.4	-	-0.4
Reclassified from OCI to electricity purhases	-	-	-0.1	-0.1
Deferred tax	-0.1	-0.3	-0.1	-0.5
Closing balance 31 December 2017	**0.5**	**-1.1**	**0.3**	**-0.3**
Change in fair value of hedging instrument recognised in OCI	-0.0	0.7	0.5	1.2
Reclassified from OCI to profit or loss - included in purchases/ sales adjustments	-0.5	-	-	-0.5
Reclassified from OCI to financial income / expenses.	-	-0.4	-	-0.4
Reclassified from OCI to electricity purhases	-	-	0.6	0.6
Deferred tax	0.0	-0.3	-0.3	-0.5
Closing balance 31 December 2018	**-0.0**	**-1.0**	**1.1**	**0.0**

Translation differences

Translation differences comprise all foreign exchange differences arising from the translation of the foreign subsidiaries' financial statements. The Group's accumulated translation differences amounted to negative EUR 19.6 million at 31 December 2018 (31.12.2017: negative EUR 16.0 million).

Earnings per share

Basic earnings per share is calculated by dividing the result for the period attributable to owners of the parent company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share has been calculated on the same basis as basic earnings per share except that it reflects the impact of any potential commitments the Group has to issue shares in the future. Altia has not issued any dilutive instruments during the periods presented.

EARNINGS PER SHARE

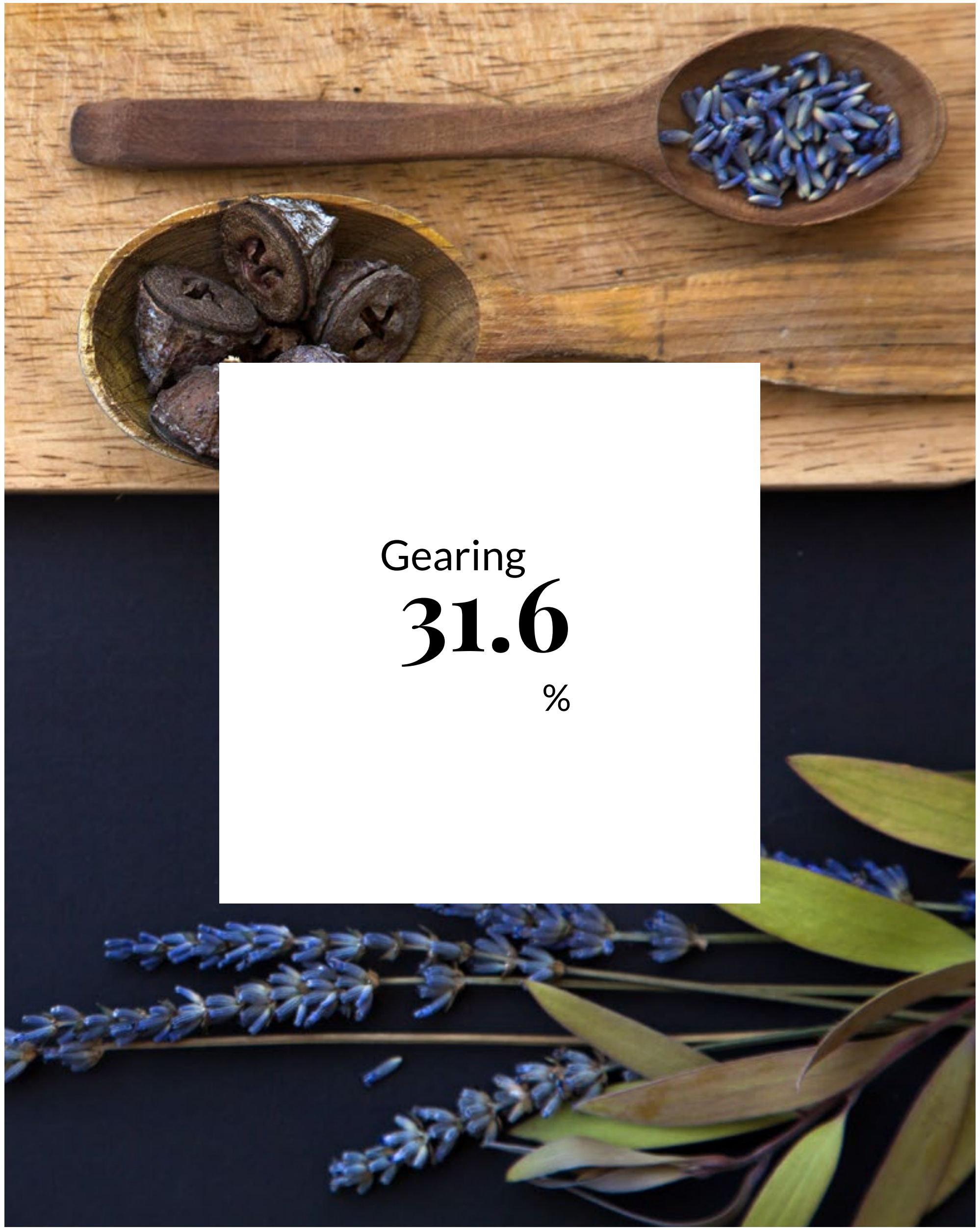
	2018	2017
Result attributable to the shareholders of the parent company, EUR million	15.1	18.3
Weighted average number of shares outstanding (1.000 pcs)	36 140	35 960
Basic and diluted earnings per share (EUR)	0.42	0.51

Dividend

The Board of Directors proposes to the Annual General Meeting that dividend of EUR 0.38 per share be distributed for 2018. No dividend was distributed for the financial year 2017.

ALTIA PLC'S DISTRIBUTABLE FUNDS

EUR million	31 Dec 2018	31 Dec 2017
Invested unrestricted equity fund	1.2	-
Retained earnings	56.8	100.7
Distribution of dividends	-	-70.5
Profit for the period	14.1	26.5
TOTAL DISTRIBUTABLE FUNDS	**72.1**	**56.8**



4. Financial and capital risk

4.1. FINANCIAL RISK MANAGEMENT

Financial risk management principles

The aim of Altia's financial risk management is to ensure the Group's financial stability and availability of sufficient financing options in different market situations. In addition, the aim is to support the business operations to identify business-related financial risks and their management, and to hedge against material financial risks.

The Group is exposed to various market risks. Changes in these risks affect the company's assets, liabilities and anticipated transactions. The risks are caused by changes in interest rates, currencies and commodity market prices. Selected derivative instruments can be used to manage the risks resulting from these market risks. Altia mainly hedges against risks that impact the Group's cash flow, and, if deemed appropriate, also certain foreign currency denominated items in the balance sheet. Derivatives are solely used to hedging against the above-mentioned risks. The principles of IFRS 9 hedge accounting are applied to certain interest rate, foreign exchange as well as electricity derivatives. Financial risk management is executed as part of the Group's risk management, according to the Risk Management Principles approved by the Board of Directors. Altia's principles aiming towards financial, credit and operational continuity form the basis for financial risk management.

Risk management process

Special process features related to financing are described below in connection with the descriptions of market, liquidity and credit risks. The financial risk exposure is regularly reported to the Audit Committee and Altia's Board of Directors. The most significant principle decisions concerning risk management are made by the company's Board of Directors.

As part of the financial risk management principles, Altia's Board of Directors has approved a list of financial instruments, in which the accepted instruments, their purpose and the person who decides on their use have been specified for different types of financial risks.

Financial risk management organisation

Financial matters are reported regularly to the Group management. On a case-by-case basis, the Board of Directors processes all substantial financial matters, such as the Group's internal and external loan arrangements.

Tasks and responsibilities regarding Altia's financial operations and financial risk management are described in the financial risk management principles. The Group Treasury is responsible for securing financing, identifying risks and, if required, executing hedging transactions with external counterparties. The business units and subsidiaries are responsible for managing the risks associated with their own operations and forecasting cash flows.

Risk concentrations

Altia carefully analyses the financial risks and risk concentrations related to its operations. Risk concentrations identified as a result of this assessment are described in connection with the descriptions of market and credit risks.

Market risk

Altia defines market risk as a risk where the fair values of financial instruments or future cash flows fluctuate as a result of changes in market prices. The most significant market risks for the Group are currency risk, interest rate risk and price risks for barley and electricity.

1. Currency risk

Altia is exposed to currency risks resulting from export and import, intra-group trade across borders of the euro-area, as well as internal loans and investments in foreign subsidiaries. The objective of the Group's currency risk management is to limit the uncertainties associated with foreign exchange rates and their effect on the Group's profit, cash flows and balance sheet.

Transaction risk

Transaction risk is caused by foreign currency denominated items in the balance sheet and future cash flows related to sales, purchases and return of capital. Transaction risk management aims to hedge the Group's profit against the effects of changes in foreign exchange rates.

The objective is to hedge 60–80% of highly probable commercial cash flows. The average hedging ratio has remained at the target level. Hedging transactions are executed with forward exchange contracts or options for the following 12 months at the most, predominantly following the pricing periods of customers. Altia may apply cash flow hedge accounting to foreign exchange derivatives. Intra-group loan arrangements are hedged by 100% and hedge accounting is not applied to these arrangements.

The two tables below present the Group's net currency position, first on the basis of financial instruments recorded on the balance sheet and secondly including on a net basis also the estimated future foreign currency net cash flows. The currency position resulting from the financial instruments in accordance with IFRS 7 consists of trade receivables, trade payables, cash and cash equivalents, the Group's internal and external loans and derivative instruments.

The net currency risk has been taken into account in the table if the transaction currency is other than the company's functional currency.

TABLE 1: THE GROUP'S NET CURRENCY POSITION AT 31 DECEMBER

The net currency position resulting from the financial instruments in accordance with IFRS 7 EUR million	2018	2017
EUR-SEK	-19.7	-19.5
EUR-NOK	-0.8	-1.3
EUR-USD	4.5	3.9
EUR-AUD	2.1	1.7

The Group's net currency position at 31 December including also the hedged commercial cash flows EUR million	2018	2017
EUR-SEK	2.4	2.0
EUR-NOK	1.1	1.3
EUR-USD	0.6	0.1
EUR-AUD	0.1	0.0

Translation risk

Translation risk is mainly caused by the parent company's foreign currency denominated net investments in foreign subsidiaries, which cause a translation difference in equity in the Group's balance sheet upon consolidation. The Group Treasury regularly analyses the translation risk and reports any material issues to the management. The most significant net investments are denominated in the Swedish and Norwegian kroner. The translation risk has not been hedged.

2. Interest rate risk

The objective of interest rate risk management is to minimise the impact of fluctuations arising from interest rate changes on the Group's profit. At 31 December 2018 the total nominal amount of loans was EUR 89.3 million (2017: 100.0) and was divided as follows:

- The EUR 20.0 million loan matures in January 2022 with annual EUR 5 million instalments. The interest rate on the loan is based on three –month market rate. Currently these interest payments are not hedged.
- The EUR 55.0 million portion of the loan matures in January 2023. The interest rate on the loan is based on three-month market rate. Altia has hedged these interest payments to fixed interest rate by using an interest rate derivative amounting to EUR 20 million. Hedge accounting principles are applied to this interest rate derivative. The hedge has been regarded as effective.
- The EUR 14.3 million pension loan matures in January 2028. The interest rate is fixed for the whole loan period.

The maximum amount under Altia's domestic commercial paper program is EUR 100 million. There were no issued commercial papers at 31 December 2018 and 2017.

Altia's maximum limit for sale of trade receivables amounts to EUR 145 million and is approved by Board of Directors. The sold trade receivables are derecognised at the time of trade with no obligation to repurchase. The related costs are recognised in other financial expenses. The trade receivables are current receivables and the related interest rate risk is not hedged. The amount of the sold trade receivables was EUR 80.2 million at 31 December 2018 (2017: 83.6 million).

3. Price risk associated with commodities

Barley

In 2018, Altia used approximately 212 (206) million kilos of Finnish barley to produce ethanol and starch. The availability of high-quality domestic barley is ensured with contract cultivation and co-operation with grain growers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of various factors that affect the Finnish barley supply and demand and is therefore considered a significant risk for Altia. The price risk has not been hedged with derivative instruments.

Electricity

Strong increase in the market price of electricity is a significant risk for Altia. The risk is managed by following Altia's principles for electricity procurement. These principles determine the hedging limits, within which the electricity price risk is hedged. The hedges are done with OTC-derivatives of Nasdaq OMX Oslo ASA. The hedging service for electricity procurement has been outsourced.

Cash flow hedge accounting in accordance with IFRS 9 is applied to the hedges against electricity price risk, and hedge effectiveness is tested quarterly. The hedged risk is the euro dominated sourcing of electricity in Finland. To hedge the risk system priced, Finnish price area and price area derivative is used. With system priced derivatives is hedged Nordic electricity price and with price area derivative is hedged the price difference between Finnish price area and system price.

At the end of 2018, the hedging ratio for deliveries for the next 12 months was 64.1% (2017: 67.6%), in line with the set targets. In 2018 the average hedging ratio was 68.0% (70.0%). All hedging was effective in 2018 (ineffective portion 2017, EUR -0.1 million).

Altia purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

4. Sensitivity to market risks

The following table describes the sensitivity of the Group's profit and equity (before taxes) to changes in electricity prices, interest and foreign exchange rates. When Altia applies hedge accounting, the sensitivity is directed at equity. When hedge accounting is not applied, the sensitivity is recognised as a potential impact on profit or loss.

The sensitivity to foreign exchange rate changes is calculated from the net currency position resulting from financial instruments.

TABLE 2: SENSITIVITY ANALYSES

Sensitivity of financial instruments to market risks (before taxes) in accordance with IFRS 7 EUR million	2018 Income statement	2018 Equity	2017 Income statement	2017 Equity
+/-10% electricity	-	+/-0.3	-	+/-0.3
+/-10% change in EUR/NOK exchange rate	+/-0.1		+/-0.1	-
+/-10% change in EUR/SEK exchange rate	+/-2.0		+/-2.0	-
+/-10% change in EUR/USD exchange rate	-/+0.5		-/+0.4	-
+/-10% change in EUR/AUD exchange rate	-/+0.2		-/+0.2	-
+1%-points parallel shift in interest rates	-0.5	+0.6	-0.7	0.8

+10 % increase in EUR/SEK exchange rate would have an EUR + 2.0 million effect in income statement. Other risks with same principle.

At the end of 2018 the total group floating rate liability position consists of floating rate liabilities EUR 75.0 million (2017: EUR 85.0 million) and floating leg of interest rate swap EUR 20 million (2017: EUR 20.0 million) which is netting the interest rate risk.

Liquidity risk

In order to manage the liquidity risk, Altia continuously maintains sufficient liquidity reserves, which at the end of 2018 comprised Group's EUR 10 million overdraft facility and a EUR 60 million revolving credit facility. At the end of December 2018, no revolving credit facility was in use (2017: EUR 10.0 million). The revolving credit facility matures in January 2023. More detailed information on the Group's external loans is provided in the interest rate risk section.

TABLE 3: LIQUIDITY RESERVES

Cash and cash equivalents and unused committed credit limits EUR million	2018	2017
Cash and cash equivalents	42.0	52.4
Overdraft facilities	10.0	10.0
Revolving credit line	60.0	50.0
TOTAL	**112.0**	**112.4**

TABLE 4: MATURITIES OF FINANCIAL LIABILITIES

Contractual payments on financial liabilities 2018 EUR million	Total contractual cash flows	Cash flows 2019 Fixed rate	Cash flows 2019 Variable rate	Cash flows 2019 Re-payment	Cash flows 2020 Fixed rate	Cash flows 2020 Variable rate	Cash flows 2020 Re-payment	Cash flows 2021– Fixed rate	Cash flows 2021– Variable rate	Cash flows 2021– Re-payment
Non-derivative:										
Loans from financial institutions[1]	-77.9	-	-0.8	-5.0	-	-0.7	-5.0	-	-1.4	-65.0
Loans from pension institutions[2]	-15.1	-0.2	-	-1.5	-0.1	-	-1.5	-0.5	-	-11.3
Finance lease liabilities	0.4	-	-	0.2	-	-	0.2	-	-	0.0
Trade payables	-25.8	-	-	-25.8	-	-	-	-	-	-
Derivative:										
Currency derivatives, hedge accounting										
Inflow	30.9	-	-	30.9	-	-	-	-	-	-
Outflow	-30.8	-	-	-30.8	-	-	-	-	-	-
Currency derivatives, non-hedge accounting										
Inflow	33.7	-	-	33.7	-	-	-	-	-	-
Outflow	-33.6	-	-	-33.6	-	-	-	-	-	-
Interest rate derivatives, hedge accounting	-1.3	-0.3	-	-	-0.3	-	-	-0.7	-	-
Commodity derivatives, hedge accounting	-1.3	-	-	-0.9	-	-	-0.4	-	-	-0.1
TOTAL	**-120.9**	**-0.5**	**-0.8**	**-32.8**	**-0.5**	**-0.7**	**-6.7**	**-1.2**	**-1.4**	**-76.4**

[1] Loans from financial institutions mature 2022 and 2023
[2] Loans from pension institutions mature 2028

TABLE 4: MATURITIES OF FINANCIAL LIABILITIES

Contractual payments on financial liabilities 2017 EUR million	Total contractual cash flows	Cash flows 2018			Cash flows 2019			Cash flows 2020–		
		Fixed rate	Variable rate	Re-payment	Fixed rate	Variable rate	Re-payment	Fixed rate	Variable rate	Re-payment
Non-derivative:										
Loans from financial institutions[1]	-88.6	-	-0.7	-10.0	-	-0.8	-5.0	-	-2.2	-70.0
Loans from pension institutions[2]	-16.0	-0.1	-	-0.8	-0.2	-	-1.5	-0.7	-	-12.8
Finance lease liabilities	0.4	-	-	0.1	-	-	0.1	-	-	0.2
Trade payables	-29.2	-	-	-29.2	-	-	-	-	-	-
Derivative:										
Currency derivatives, hedge accounting										
Inflow	30.9	-	-	30.9	-	-	-	-	-	-
Outflow	-30.2	-	-	-30.2	-	-	-	-	-	-
Currency derivatives, non-hedge accounting										
Inflow	24.8	-	-	24.8	-	-	-	-	-	-
Outflow	-24.5	-	-	-24.5	-	-	-	-	-	-
Interest rate derivatives, hedge accounting	-1.4	-0.3	-	-	-0.3	-	-	-0.8	-	-
Commodity derivatives, hedge accounting	-0.3	-	-	0.0	-	-	-0.1	-	-	-0.1
TOTAL	**-133.9**	**-0.4**	**-0.7**	**-38.8**	**-0.5**	**-0.8**	**-6.6**	**-1.5**	**-2.2**	**-82.6**

[1] Loans from financial institutions mature 2022 and 2023
[2] Loans from pension institutions mature 2028

Credit risk

The objective of Altia's credit risk management is to minimise the losses if one of the Group's counterparties fails to meet its obligations. The principles of credit risk management are described in the Group's credit policy.

Credit risks are caused by a counterparty not fulfilling its contractual payment obligations or the counterparty's credit rating changing in a manner that affects the market value of the financial instruments it has issued.

The maximum amount of credit risk is equal to the carrying amount of the Group's financial assets. No significant risk concentrations relate to trade receivables. The aim is to minimise credit risks by active credit management and by taking into account customers' credit rating when determining the payment term of invoices.

4.2. CAPITAL RISK MANAGEMENT

The target of Altia's capital management is to secure an effective capital structure that supports the profitable growth of the operations. The Board of Directors monitors the Group's capital structure regularly.

Altia monitors its capital based on gearing (the ratio of interest-bearing net liabilities to equity). Interest-bearing net liabilities consist of the loans less cash and cash equivalents. The current level of gearing is distinctly lower than the limit determined in the Group's loan terms.

During the business cycle, the company's net gearing is likely to fluctuate, and the objective is to retain a sufficiently strong capital structure to secure the Group's financing needs. At 31 December 2018 and 31 December 2017, the gearing ratio was as follows:

TABLE 5: GEARING

Gearing as of 31 December EUR million	2018	2017
Borrowings	**89.4**	**100.1**
Cash and cash equivalents	42.0	52.4
Net debt	47.4	47.7
Total equity	150.1	136.8
GEARING AT 31 DECEMBER	**31.6%**	**34.9%**

5. Consolidation

5.1. GENERAL CONSOLIDATION PRINCIPLES

Consolidation

Consolidation, consolidation method and classification of ownership interests depends on whether the Group has power to control or jointly control the entity or have significant influence or other interests in the entity. When the Group has power to control the entity, it is consolidated as a subsidiary according to principles described in Note 5.2. (p. 153) Subsidiaries. When the Group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using the principles set in Note 5.3. (p. 154). Associated companies and interests in joint operations. If the Group does not have power to control nor significant influence in the entity, its ownership interests are classified as Financial assets at fair value through other comprehensive income and accounted for according to principles described in Note 3.2.1. (p. 134).

Foreign currency items

The consolidated financial statements are presented in euro, which is the functional and presentation currency of the parent company. Transactions in foreign currencies are translated to euro at average foreign exchange rates published by the European Central Bank on banking days. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the average exchange rates prevailing at that date. Foreign currency differences arising on translation are recognised in profit or loss. Foreign exchange gains and losses related to purchases and sales are recognised in the respective items and included in operating result. Foreign currency gains and losses arising from loans denominated in foreign currencies are recognised in finance income and expenses.

Income and expenses for the statements of comprehensive income of foreign subsidiaries that operate outside the eurozone are translated using the average rates of the European Central Bank's exchange rates at the end of the month. The statements of financial position of foreign subsidiaries are translated using the average exchange rates ruling at the reporting date. Foreign currency differences arising on the translation of profit or loss for the period with different exchange rates in the statement of comprehensive income and in the balance sheet are recognised in other comprehensive income and included in translation differences in equity. Changes in translation differences are recognised in other comprehensive income.

In the consolidated financial statements, exchange rate differences arising from the translation of foreign currency denominated loans to foreign subsidiaries, which form a part of net investments in foreign companies, are recognised in other comprehensive income and included in translation differences within equity.

Translation differences arising from elimination of the cost of foreign subsidiaries and from translation of the foreign subsidiaries' post-acquisition profits and losses are recognised in other comprehensive income and presented as a separate item within equity. Goodwill and the fair value adjustments to the carrying amounts of assets and liabilities of foreign units are accounted for as assets and liabilities of the respective foreign units, which are translated to euro at the exchange rates prevailing at the reporting date. If these foreign units are entirely or partly disposed of, related exchange rate differences are recognised in profit or loss as part of the gain or loss on disposal.

5.2. SUBSIDIARIES

Subsidiaries consolidation principles

Consolidated financial statements of Altia include the parent company, Altia Plc, and all subsidiaries. Subsidiaries are all those in which the parent company exercises control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of acquired subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All business combinations are accounted for by using the acquisition method. The consideration transferred and the identifiable assets acquired and liabilities assumed in the acquired company are measured at fair value at the acquisition date. The amount exceeding the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired is recorded as goodwill.

All acquisition-related costs, with the exception of costs to issue debt or equity securities, are expensed. The consideration transferred does not include any transactions accounted for separately from the acquisition. Any contingent consideration is recognised at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as a liability is measured at fair value at each reporting date and any resulting gain or loss is recognised in profit or loss.

Intra-group transactions, receivables, liabilities and unrealised gains, as well as the distribution of profits within the Group are eliminated in preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss in question results from impairment.

The Group had no non-controlling interests at 31 December 2018 or 31 December 2017.

Altia Plc had 23 subsidiaries at the end of the reporting period (23 subsidiaries at 31 December 2017).

	Parent company's share of ownership (%)	Group's share of ownership (%)	Country of incorporation
A-Beverages Oy	100.00	100.00	Finland
Altia Eesti AS	100.00	100.00	Estonia
Altia Denmark A/S	100.00	100.00	Denmark
Altia Holding Sweden AB	100.00	100.00	Sweden
SIA Altia Latvia	100.00	100.00	Latvia
Altia Norway AS	100.00	100.00	Norway
Altia Sweden AB	-	100.00	Sweden
Altia Sweden Services AB	-	100.00	Sweden
Alpha Beverages Oy	100.00	100.00	Finland
Best Buys International AS	100.00	100.00	Norway
BevCo AB	-	100.00	Sweden
Bibendum AB	-	100.00	Sweden
Bibendum AS	100.00	100.00	Norway
ExCellar Oy	100.00	100.00	Finland
Harald Zetterström oy/ab	100.00	100.00	Finland
Interbev AS	100.00	100.00	Norway
Larsen SAS	100.00	100.00	France
Philipson & Söderberg AB	-	100.00	Sweden
Prime Wines Oy	100.00	100.00	Finland
Premium Wines AS	100.00	100.00	Norway
Ström AS	100.00	100.00	Norway
Vinuversum AB	-	100.00	Sweden
Oy Wennerco Ab	100.00	100.00	Finland

5.3. ASSOCIATED COMPANIES AND INTERESTS IN JOINT OPERATIONS

Associated companies

Associated companies are all entities over which the Group accompanies a shareholding of over 20% of voting rights or otherwise has significant influence, but not control. Altia has an investment in an associated company Palpa Lasi Oy.

Associated companies are consolidated by using the equity method. Under the equity method, the investment is initially recognised at cost and subsequently adjusted with the change in the net assets of the investee after the acquisition date, consistent with the ownership interest of the Group. After the acquisition the Group's share in the associated company's profit and loss for the period is separately disclosed after operating result. If the Group's share in the associated company's loss exceeds the carrying amount of the investment, the investment is recognised at zero value in the consolidated balance sheet and the loss exceeding the carrying amount is not consolidated, unless the Group has committed to fulfil the company's obligations. An investment in an associated company includes goodwill arisen on acquisition. The Group's share in changes in the associated company's other comprehensive income is recognised in consolidated other comprehensive income.

Results from the transactions between the Group and its associates are recognised only to the extent of unrelated investor's interests in the associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. In case of such indications, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its' carrying value. The impairment is recognised in share of results in associated companies.

Financial statements of associated companies have been changed where necessary to correspond with the accounting policies adopted by the Group. If financial statements for the period are not available, the share of the profit is included in the consolidated financial statements based on the preliminary financial statements or latest available information.

Interests in joint operations

A joint arrangement is an arrangement of which two or more parties have contractually agreed joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. Altia has an interest through a receivable in Roal Oy based on the contractual relationship with the other party to the joint operation. The interest in Roal Oy is accounted for as a joint operation.

ASSOCIATED COMPANIES AND JOINT OPERATIONS

	2018 Share of ownership %	2017 Share of ownership %
Roal Oy, Finland	50.00	50.00
Palpa Lasi Oy, Finland	25.53	25.53

Roal Oy engages enzyme business. The joint operation's other owner is ABF Overseas Ltd. Palpa Lasi Oy engages in the recycling and re-use of glass beverage packages.

Altia has joint control over Roal but the option right held by the other shareholder represents in substance a receivable with a fixed rate of return and Altia does not have a right to 50% of the net assets until the option lapses. Accordingly, the interest is classified as a joint operation with Altia accounting for its share of assets as a receivable with the annual minimum dividend accounted for as interest income. The receivable amounted to EUR 7.6 million as at 31 December 2018 and 31 December 2017.

FINANCIAL SUMMARY OF ASSOCIATED COMPANIES

EUR million	2018	2017
Assets	7.6	5.9
Liabilities	6.3	7.3
Net assets	1.3	-1.5
Net sales	18.3	17.5
Result for the period	2.8	1.2

Related party transactions with associated companies and joint operations are presented in Note 6.3. (p. 161).

6. Other notes

6.1. INCOME TAX EXPENSES

Income tax expenses

The Group's income tax expense recognised through profit or loss comprises current tax based on taxable income for the period, any adjustments to tax payable in respect of previous periods and deferred taxes. Current income tax based on taxable income is calculated according to the local tax regulations of each Group company.

Tax effects related to transactions or other events recognised in profit or loss are recognised in profit or loss. If the taxes relate to items of other comprehensive income or transactions or other events recognised directly in equity, income tax expense is recognised within the respective items. The Group's share of profit or loss in associated companies is reported as calculated from the net profit and thus including the income tax effect.

Deferred tax assets and liabilities are principally recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from property, plant and equipment and intangible assets, carry forward of unused tax losses and fair value allocations on business combinations. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax liabilities are recognised in full. Deferred taxes are calculated using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised for foreign subsidiaries undistributed earnings only when related tax effects are probable.

Deferred tax assets and liabilities are set off when they are levied by same taxing authority and Altia has legally enforceable right to set off the balances.

Critical estimates and management judgements – Deferred tax assets: Judgment is required in assessing whether deferred tax assets are recognised on the balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These future cash flow estimates depend on estimates of future sales volumes, price levels of main raw materials, capital expenditure and other components affecting profitability of the operations. These estimates and assumptions are subject to risk and uncertainty, hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of any other tax losses and temporary differences not yet recognised. Altia's ability to generate taxable profit is also subject to general economic, financial, competitive, legislative and regulatory factors that are beyond its control. If Altia generates lower future taxable profits than what management has assumed in determining the amounts of the recognised deferred tax assets, the assets would become impaired, either partly or in full. Accordingly, amounts recognised in balance sheet could potentially be reversed through profit and loss. Changes in circumstances may also result in recognition of deferred tax assets for tax losses not yet recognised as an asset.

INCOME TAX EXPENSE

EUR million	2018	2017
Current income tax expense	3.8	6.3
Adjustments to taxes for prior periods	0.2	-0.2
Deferred taxes:		
Origination and reversal of temporary differences	0.0	0.6
Impact of changes in tax rates	-0.4	0.0
TOTAL	**3.6**	**6.7**

The reconciliation of the tax expense recognised in profit and loss and the tax expense calculated using Altia Group's domestic corporate tax rate (20.0%):

EUR million	2018	2017
Result before taxes	18.6	25.0
Income tax using the parent company's tax rate	3.7	5.0
Effect of tax rates of subsidiaries in foreign jurisdictions	0.3	0.4
Tax-exempt income	-0.3	-0.2
Non-deductible expenses	0.1	0.1
Utilisation of previously unrecognised tax losses	-0.0	-0.4
Adjustments to taxes for prior periods	0.2	-0.2
Share of profit in associated companies, net of tax	-0.1	-
Effect of changes in tax rates	-0.4	0.0
Tax arising on dividends	-	0.6
Tax on undistributed earnings	-0.0	1.7
Other items	0.0	-0.3
TAX EXPENSE IN PROFIT OR LOSS	**3.6**	**6.7**

The year 2017 recognised tax expense on undistributed earnings, EUR 1.7 million, was due to the reassessment of deferred tax liabilities of retained earnings in Estonia.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

2018 EUR million	Before Tax	Tax	Net of Tax
Cash flow hedges	0.4	-0.1	0.3
Translation differences	-3.5	-	-3.5
Remeasurements of post-employment benefit obligations	0.0	-0.0	-0.0
TOTAL	**-3.1**	**-0.1**	**-3.2**

2017 EUR million	Before Tax	Tax	Net of Tax
Cash flow hedges	1.4	-0.3	1.1
Available-for-sale financial assets	0.6	-	0.6
Translation differences	-4.0	-	-4.0
Remeasurements of post-employment benefit obligations	-0.0	0.0	-0.0
TOTAL	**-2.0**	**-0.3**	**-2.3**

DEFERRED TAX ASSETS AND LIABILITIES

Change in deferred tax assets and liabilities during 2018: EUR million	1 Jan 2018	Recognised in profit or loss	Recognised in other comprehensive income	Exchange rate differences	31 Dec 2018
Deferred tax assets:					
Tax losses	0.3	-0.2	-	-0.0	0.1
Fixed assets	2.4	-0.4	-	-0.0	2.0
Pension benefits	0.3	0.0	-0.0	-0.0	0.3
Provisions	-	0.1	-	-	0.1
Internal margin of inventories	0.1	0.0	-	-0.0	0.1
Recognised in hedge reserve	0.1	-	-0.1	-	0.0
Other temporary differences	0.2	-0.0	-	-0.0	0.1
Total deferred tax assets	**3.3**	**-0.4**	**-0.1**	**-0.0**	**2.7**
Offset against deferred tax liabilities	-2.3				-1.9
Net deferred tax assets	**1.0**				**0.8**
Deferred tax liabilities:					
Fixed assets	5.2	-0.0	-	-0.0	5.2
Recognised in hedge reserve	0.0	-	0.0	-0.0	0.0
Fair value allocation on acquisitions	2.7	-0.5	-	-0.1	2.1
Deductable goodwill depreciation	10.4	-0.4	-	-0.3	9.7
Undistributed profits of foreign subsidiaries	1.7	-0.0	-	-	1.7
Other temporary differences	0.0	-0.0	-	-	0.0
Total deferred tax liabilities	**20.0**	**-0.9**	**0.0**	**-0.4**	**18.8**
Offset against deferred tax assets	-2.3				-1.9
Net deferred tax liabilities	**17.7**				**16.8**

DEFERRED TAX ASSETS AND LIABILITIES

Change in deferred tax assets and liabilities during 2017: EUR million	1 Jan 2017	Recognised in profit or loss	Recognised in other comprehensive income	Exchange rate differences	31 Dec 2017
Deferred tax assets:					
Tax losses	0.2	0.1	-	-0.0	0.3
Fixed assets	3.4	-1.1	-	-0.0	2.4
Pension benefits	0.3	0.0	0.0	-0.0	0.3
Internal margin of inventories	0.1	0.0	-	-0.0	0.1
Recognised in hedge reserve	0.4	-	-0.3	-0.0	0.1
Other temporary differences	0.2	-0.0	-	-0.0	0.2
Total deferred tax assets	**4.6**	**-1.0**	**-0.3**	**-0.0**	**3.3**
Offset against deferred tax liabilities					-2.3
Net deferred tax assets					**1.0**
Deferred tax liabilities:					
Fixed assets	5.2	-0.0	-	-0.0	5.2
Recognised in hedge reserve	0.0	-	0.0	0.0	0.0
Fair value allocation on acquisitions	3.2	-0.4	-	-0.1	2.7
Deductable goodwill depreciation	10.5	0.0	-	-0.2	10.4
Undistributed profits of foreign subsidiaries	-	1.7	-	-	1.7
Other temporary differences	1.7	-1.6	-	-0.0	0.0
Total deferred tax liabilities	**20.7**	**-0.4**	**0.0**	**-0.3**	**20.0**
Offset against deferred tax assets					-2.3
Net deferred tax liabilities					**17.7**

At 31 December 2018, the Group had EUR 1.0 million (2017: EUR 5.6 million) of tax loss carry forwards for which no deferred tax was recognised. EUR 1.0 million of these temporary differences expire in 4 years. Altia management estimates these losses arise in subsidiaries which have neither indication of future taxable income nor other convincing evidence that tax losses can be utilised and deferred tax asset be recognised in balance sheet.

6.2. COLLATERALS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

EUR million	2018	2017
Collaterals and commitments		
Collaterals given on behalf of Group companies		
Mortgages	18.5	18.5
Guarantees	5.3	6.4
TOTAL COLLATERALS	**23.8**	**24.9**
Other commitments		
Operating lease obligations		
Less than one year	3.9	4.8
Between one and five years	9.3	11.5
More than five years	0.5	0.9
Total operating lease obligations	13.6	17.1
Other commitments	15.5	19.7
TOTAL COMMITMENTS	**29.1**	**36.8**

Collaterals given on behalf of Group companies all relate to commitments to authorities. Operating lease obligations consists of office, cars and forklift rental commitments. Other commitments include mainly purchase obligations of wine and cognac.

Assets not recognised in the balance sheet, emission allowances

The Group participates in the European Union emission trading scheme, where it has been granted a certain number of carbon dioxide emission allowances for a certain period of time, free of charge. Altia Plc discloses its carbon dioxide emission allowances granted free of charge on net basis. Following from this, the Group does not recognise in the balance sheet the granted emission allowances, nor the obligation to deliver allowances corresponding to the realised emissions. The Group does not recognise income or expenses arising from emission allowances through profit or loss when the emission allowances granted are sufficient to cover the obligation to deliver allowances corresponding to the amount of emissions made.

If the realised emissions exceed the granted emission allowances, the obligation arising from the excess emissions is recognised at fair value as a liability in the balance sheet at the reporting date. If the realised emissions fall below the granted emission allowances, the difference is not recognised in the balance sheet but it is disclosed in the notes to the financial statements, measured at fair value.

Altia´s actual emissions are below the emission allowances granted. The following table presents changes in allowances for financial years 2018 and 2017, as well as their fair values:

Emission allowances, kilotons	2018	2017
Emission allowances received	26.9	27.4
Excess emission allowances from the previous period	45.6	39.2
Adjustments related to prior year's estimates	0.0	-0.0
Sold emission allowances	-20.0	-
Realised emissions	-21.9	-21.0
EMISSION ALLOWANCES AT 31 DECEMBER	**30.6**	**45.6**
Fair value of emission allowances at 31 December, EUR million	0.7	0.4

The emission allowances received during year 2018 and the realised emissions are estimates, which will be adjusted during the spring 2019. Altia continues to operate within the emission trading system for the trading period 2013–2020.

6.3. RELATED PARTY TRANSACTIONS

The Company's related parties include the subsidiaries, associated companies and joint operations. The subsidiaries are presented in Note 5.2. (p. 153) and associated companies and joint operations in Note 5.3. (p. 154). Related party transactions include such operations that are not eliminated in the Group´s consolidated financial statements.

Related party also include the Board of Directors, the CEO, the members of the Executive Management Team and their family members as well as entities controlled or jointly controlled by these persons. Also entities that are controlled or jointly controlled by, or are associates of the State, are related parties of Altia. Altia has applied the exemption to report only material transactions with the government related entities. Transactions with related parties are entered into on market terms. Altia has related party transactions on a continuous basis with its major customer Alko. Transactions with Alko have been presented below under Other companies considered related parties.

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH RELATED PARTIES

EUR million	2018	2017
Sales of goods and services		
Associates and joint operations	0.9	1.0
Other companies considered related parties	79.2	82.8
TOTAL	**80.1**	**83.8**
Purchases of goods and services		
Associates and joint operations	2.8	2.1
Other companies considered related parties	1.3	4.1
TOTAL	**4.1**	**6.2**
Outstanding balances from sales and purchases of goods and services		
Trade receivables		
Associates and joint operations	0.1	0.2
Other companies considered related parties	3.2	2.8
Trade payables		
Associates and joint operations	0.3	0.0
Other companies considered related parties	0.0	0.1

MANAGEMENT REMUNERATION

EUR million	2018	2017
CEO		
Salaries and other short-term employee benefits	0.3	0.3
Performance bonus and the bonuses from long-term incentive plan	0.3	0.3
Pension benefits	0.1	0.1
TOTAL	**0.7**	**0.7**
Members of the Executive Management Team (CEO not included)		
Salaries and other short-term employee benefits	1.9	1.9
Pension benefits	0.3	0.3
TOTAL	**2.2**	**2.2**
Members and deputy members of the Board of Directors	0.3	0.2

No monetary loans have been granted to the CEO or the members of the Board of Directors, nor any collaterals or commitments granted on their behalf.

The retirement age of the CEO of the parent company is 63 years.

6.4. ADOPTION OF NEW OR AMENDED IFRS STANDARDS AND INTERPRETATIONS

Altia has adopted new accounting standards issued by the International Accounting Standards Board, IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, effective on January 1, 2018.

IFRS 15 Revenue Recognition

Altia adopted the standard on January 1, 2018. The new standard replaced IAS 18 and IAS 11 standards and the related interpretations. The IABS has also issued clarifications to IFRS 15. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The new standard includes a five-step process that Altia applies for contracts with customers before revenue is recognised.

The steps that are required to be followed for revenue recognition are the following:

1. identifying the contract
2. identifying the performance obligations
3. determining the transaction price
4. allocation of the transaction price to each performance obligation (to each distinct good or service promised to the client) on a relative stand-alone selling price basis
5. recognising the revenue when (or as) the performance obligation is satisfied by transferring the good or service to the client.

Altia's revenue comprises mainly sales of alcoholic products, which consists of a portfolio of Altia's own brands and international partner brands. Altia imports, sells and distributes wine, spirits and other beverage products to monopolies, hotels, restaurants, catering business, retail business, whole sale customers and export, border traffic and sea traffic customers. Altia also provides its industrial partners with solutions and services. Altia sells industrial products such as ethanol, starch and feed components and offers contract manufacturing services from distillation to bottling and customer services & logistics to its industrial customers.

Altia adopted the standard using the modified retrospective method which means that the comparatives are not restated and regarding Altia there were no material cumulative impact of the adoption recognised in retained earnings as of 1 January 2018.

Identifying performance obligations:

In the alcoholic products and industrial product sales each delivered product or batches of products are distinct performance obligations and the customer contracts do not typically contain a separate promise for transportation service. Accordingly, even when the control of the goods transfers to the customer before shipment, Altia does not arrange for the goods to be shipped and does not offer any other transportation or handling service to its customers. If control does not transfer to the customer before shipment, the transportation service is a fulfilment activity and not a distinct service. Accordingly, the transportation service is not a separate performance obligation to be accounted for separately from the sale of goods. In its partner supplier agreements, which entitle Altia to distribute partners' products, Altia acts as a principal towards the end customer having control over the product, discretion in establishing prices and owning the inventory. Accordingly, revenue recognised is the gross amount to which Altia is entitled to in these product sales.

In the contract services to Altia's industrial customers the contracts essentially include of a single performance obligation, being a series of distinct services such as contract manufacturing services, customer services, logistics and warehousing. In these arrangements Altia does not have any control over the product or inventory risk.

Determining the transaction price:

Contracts with customers typically include several variable considerations (volume discounts, bonuses, marketing support such as slotting fees, sanctions relating to certain predetermined KPIs or Altia's failure to timely perform its obligations, product returns, differences between a standard cost price and actual costs etc.). Under IFRS 15, an entity needs to estimate the variable consideration and include in the transaction price an amount that fulfils the highly probable criterion. However, Altia has already under the previous revenue recognition standards estimated the variable considerations as part of its revenue recognition process. In addition, Altia has been able to reliably estimate the outcome and therefore, management's view is that the highly probable criterion is typically met. Further, the amount of realised sanctions is immaterial and therefore, no adjustments to the transaction price were needed at transition.

With respect to right of return clauses Altia has previously recognised revenue for the transferred products in the amount of consideration to which it expects to be entitled and a refund liability related to the products that are expected to be returned, Under IFRS 15 Altia need to recognise a separate asset on its balance sheet reflecting the right to receive the goods. Previously Altia has recognised refund liability and inventory balances as a net amount but under IFRS 15 the amount is shown as gross amount meaning a separate contract asset and corresponding liability. The presentation would have increased the total assets and total liabilities by EUR 2.1 million on 31 December 2017. Under IFRS 15, slotting fees are recognised as a reduction of revenue. Previously the amounts were recognised as expenses. The identified classification differences in regard to returns and slotting fees are not material for Altia.

Allocation of the transaction price:

In general, the prices represent the stand-alone selling prices and accordingly there is no need to allocate standalone selling price. Further, management view is that the allocation of discounts to each element in the contract would not result any differences in the amount or timing of revenue recognised because the control of all ordered goods transfers at the same time. In the contract services requirements to allocate variable consideration to a distinct service within the series are met and therefore Altia allocates and recognises variable consideration in the period it has the contractual right to the fee.

Recognising revenue:

There were no significant changes to the timing of revenue recognition as a result of adopting IFRS 15. Altia does not have any incremental costs of obtaining a contract (e.g. sales bonuses) or contract costs to fulfill a contract which would be eligible for capitalisation under IFRS 15.

IFRS 9 Financial Instruments

Altia adopted the standard on January 1, 2018. In accordance with transitional provisions, comparative figures have not been restated. All financial assets are subsequently measured at amortised cost, FVOCI or FVPL based on the business model for managing the financial assets and their contractual cash flow characteristics. The IFRS 9 classification did not cause relevant changes in handling these items. Financial assets are derecognized once the group has lost the contractual right to their cash flows or when it has substantially transferred their risks and rewards to a party outside the Group.

The derecognition rules under IFRS 9 are a continuum of the provisions of IAS 39 Financial Instruments: Recognition and Measurement. Altia's factoring process is on a non-recourse basis i.e. all rights related to the sold account receivables are transferred to the buyer. The derecognition criterias of IAS 39 continue to be fulfilled under IFRS 9.

RECLASSIFICATIONS OF FINANCIAL INSTRUMENTS ON ADOPTION OF IFRS 9

	Measurement category IAS 39	Measurement category IFRS 9	Carrying amounts in IAS39	Carrying amounts in IFRS 9
Non-current financial assets				
Receivables from interests in joint operations	Loans and other receivables	Amortised cost	7.6	7.6
Unquoted shares	Available-for-sale financial assets	Fair value through other comprehensive income	1.4	1.4
Loan receivables	Loans and other receivables	Amortised cost	1.0	1.0
Current financial assets				
Trade and other receivables	Loans and other receivables	Amortised cost	49.7	49.7
Derivatives, hedge accounting				
Forward exchange contracts	Fair value through other comprehensive income	Fair value through other comprehensive income	1.1	1.1
Commodity derivatives	Fair value through other comprehensive income	Fair value through other comprehensive income	0.3	0.3
Cash and cash equivalents	Loans and other receivables	Amortised cost	52.4	52.4
Non-current financial liabilities				
Borrowings	Financial liabilities at amortised cost	Amortised cost	89.1	89.1
Current financial liabilities				
Borrowings	Financial liabilities at amortised cost	Amortised cost	11.0	11.0
Trade and other payables	Financial liabilities at amortised cost	Amortised cost	29.3	29.3
Derivatives, hedge accounting				
Interest rate derivatives	Fair value through other comprehensive income	Fair value through other comprehensive income	1.4	1.4
Forward exchange contracts	Fair value through other comprehensive income	Fair value through other comprehensive income	0.1	0.1

Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than on an incurred credit loss basis as was the case under IAS 39.

The new impairment model requirement applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The loss allowance for account receivables is based on the aging of the accounts receivable regional portfolios. The expected loss rate for all trade receivables is 0,1% and in addition receivables more than 120 days due are impaired with 60% expected loss rate. The receivables of the monopolies in Finland and Sweden are excluded due to the nature of the customer and related credit risk. Forward looking macro-economic information has been included in the analysis. Adoption of the ECL model resulted decrease in loss provision as 1.1.2018 and Altia adjusted the opening balance of its retained earnings of EUR 0.1 million.

Financial liabilities

Adoption of IFRS 9 had no impact on Altia's classification and measurement of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Altia does not have such liabilities.

Debt modification

Under IFRS 9 when a financial liability measured at amortised cost is modified without the transaction resulting in a derecognition event, a gain or loss should be recognised directly in profit or loss. These modified rules do not have an impact for Altia as it has not changed the terms and conditions for any existing borrowings that would have resulted in modification accounting under IAS 39.

Hedge accounting

The new hedge accounting rules align the accounting for the hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The Group applies hedge accounting for certain interest rate, foreign currency and electricity derivatives. The group has confirmed that its previous hedge relationships qualify as continuing hedges upon the adoption of IFRS 9.

For cash flow foreign currency hedges under IFRS 9, Altia designates the full fair value of the forward contract to the hedge relationship and accordingly, no longer bifurcate the forward points for separate recognition through the P/L. This is a change Altia has selected at the adoption date, however, the effect is considered to be insignificant and not adjusted in the opening balance of retained earnings.

IFRS 9 allows hedging a component of the risk. This change increases the effectiveness of the electricity hedges and all hedging is classified as effective.

The interest rate swaps hedge the floating rate borrowings and the current hedge relationships continue under IFRS 9 with no change.

Disclosures

The new standard also introduces expanded disclosure requirements and changes in presentation.

New standards

Altia has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date of each standard and interpretation or, if the date is other than the first day of the reporting period, from the beginning of the subsequent reporting period.

IFRS 16 Leases

(effective for annual periods beginning on or after 1 January 2019):

IFRS 16 Leases is effective on 1 January 2019 and the new standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The new lease standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for the majority of Altia's lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest cost and depreciation, so Altia's key metrics like EBITDA will change.

Operating cash flows presented in the cash flow statement will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflect interest cost will continue to be presented as operating cash flows.

Based on Altia's preliminary impact assessment which is subject to changes, the implementation of IFRS 16 will increase the property, plant and equipment in its balance sheet, mainly due to current operating leases of premises, warehouses, cars and forklifts. In the opening balance of January 2019 when implementing IFRS 16 and calculated according the standard the Group's right of use assets and corresponding interest-bearing liabilities are estimated to be EUR 10.5 million. In the consolidated income statement, the operating expense will decrease approximately EUR 3-4 million, while depreciation and interest costs will reflect an increase as the lease expense is no longer classified as an operating expense. This will lead to an improvement in EBITDA. The analysis will be completed during the first quarter of 2019.

Altia implements the standard by using a simplified approach (modified retrospective approach), where comparative figures will not be restated. Altia will recognise the accumulated effect of adopting IFRS 16 as an adjustment to equity at the beginning of 2019. Furthermore, Altia uses the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value leases.

Other forthcoming amendments to IFRS standards and IFRIC interpretations that the Group is aware of are not assessed to have a material impact on Altia's consolidated financial statements.

6.5. EVENTS AFTER THE REPORTING PERIOD

On 30 January, the proposals by the Shareholders' Nomination Board to the Annual General Meeting were announced. The Nomination Board proposes that the number of members of the Board of Directors be seven and that the present members Kim Henriksson, Tiina Lencioni, Jukka Ohtola, Torsten Steenholt, Sanna Suvanto-Harsaae and Kai Telanne be re-elected and Anette Rosengren be elected as a new member.

Further, the Nomination Board proposes that the remuneration to be paid to the members of the Board of Directors during the next term consist of a monthly term of office fee as follows: EUR 4 000 per month, Chairman; EUR 2 500 per month, Vice Chairman; EUR 2 000 per month, member.

In addition to the monthly fee, the Board members would receive a meeting fee for the Board of Directors and Board Committee meetings of EUR 600 per meeting for Board members residing in Finland and EUR 1 200 per meeting for Board members residing abroad. Travel expenses would be reimbursed in accordance with the company's travel policy.

Parent Company Financial Statements

ALTIA PLC INCOME STATEMENT (FAS)

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
NET SALES	1.	205.3	201.2
Increase (+) / decrease (–) in inventories of finished goods and work in progress		-0.1	-0.2
Other operating income	2.	20.0	20.5
Materials and services			
Raw materials, consumables and goods			
Purchases during the period		-128.9	-117.0
Change in inventories		5.3	-1.9
External services		-0.1	-0.1
Total materials and services		**-123.6**	**-119.1**
Personnel expenses	3.		
Wages and salaries		-23.8	-24.9
Indirect employee expenses			
Pension expenses		-5.8	-4.5
Other indirect employee expenses		-0.9	-1.5
Total personnel expenses		**-30.6**	**-30.9**
Depreciation, amortisation and impairment losses			
Depreciation and amortisation according to plan		-11.6	-11.2
Total depreciation, amortisation and impairment losses		**-11.6**	**-11.2**
Other operating expenses	4.	-50.5	-48.6
OPERATING RESULT		**8.9**	**11.7**

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Finance income and expenses	5.		
Income from Group companies		6.7	16.6
Income from participating interests		0.9	0.9
Income from other investments held as non-current assets			
From others		0.1	0.2
Other interest and finance income			
From Group companies		0.4	0.5
From others than Group companies		3.3	4.3
Interest and other finance expenses			
To Group companies		-0.1	-0.1
To others than Group companies		-5.4	-6.2
Total finance income and expenses		**6.0**	**16.1**
RESULT BEFORE APPROPRIATIONS AND TAXES		**14.8**	**27.8**
Appropriations	6.		
Depreciation difference increase (–) /decrease (+)		1.0	0.9
Group contribution		-0.0	-
Income tax expense	7.		
Current period taxes		-1.7	-2.2
Deferred taxes		0.1	-0.0
Other direct taxes		-0.1	0.0
Total income taxes		**-1.7**	**-2.2**
RESULT FOR THE PERIOD		**14.1**	**26.5**

ALTIA PLC BALANCE SHEET (FAS)

EUR million	Note	31 Dec 2018	31 Dec 2017
ASSETS			
NON-CURRENT ASSETS	8.		
Intangible assets			
Intangible rights		12.0	12.6
Other capitalised long-term expenditure		7.7	9.3
Prepayments		1.7	2.8
Intangible assets total		**21.4**	**24.7**
Tangible assets			
Land and water areas		2.4	2.5
Buildings and structures		21.9	23.0
Machinery and equipment		27.8	25.0
Other tangible assets		0.5	0.5
Prepayments and assets under construction		1.5	4.7
Tangible assets total		**54.2**	**55.6**
Investments			
Holdings in Group companies		206.8	206.8
Participating interests		8.0	8.0
Other shares and investments		0.8	0.8
Investments total		**215.7**	**215.7**
TOTAL NON-CURRENT ASSETS		**291.3**	**296.0**

EUR million	Note	31 Dec 2018	31 Dec 2017
CURRENT ASSETS			
Inventories	9.		
Materials and supplies		21.8	16.5
Work in progress		10.3	12.5
Finished goods		11.6	9.5
Inventories total		**43.7**	**38.5**
Non-current receivables	10.		
Receivables from Group companies		15.8	17.8
Deferred tax assets		0.5	0.5
Non-current receivables total		**16.3**	**18.3**
Current receivables	11.		
Trade receivables		25.3	20.1
Receivables from Group companies		12.2	9.8
Receivables from participating interest undertakings		0.1	0.2
Other receivables		0.0	-
Accrued income and prepaid expenses		3.6	2.8
Current receivables total		**41.3**	**32.9**
Cash at hand and in banks		40.6	49.4
TOTAL CURRENT ASSETS		**141.9**	**139.1**
TOTAL ASSETS		**433.2**	**435.1**

ALTIA PLC BALANCE SHEET (FAS)

EUR million	Note	31 Dec 2018	31 Dec 2017
EQUITY AND LIABILITIES			
Equity	13.		
Share capital		60.5	60.5
Invested unrestricted equity fund		1.2	-
Hedge reserve		0.0	-0.4
Retained earnings		56.8	30.2
Profit for the period		14.1	26.5
TOTAL EQUITY		**132.6**	**116.9**
Appropriations	14.		
Depreciation difference		21.6	22.6
Provisions			
Other provisions		0.5	-
Liabilities			
Non-current	15.		
Loans from financial institutions		70.0	75.0
Loans from pension institutions		12.8	14.3
Liabilities to Group companies		1.8	2.3
Deferred tax liabilities		0.0	-
Other liabilities		4.9	4.9
Non-current liabilities total		**89.5**	**96.5**
Current			
Loans from financial institutions		5.0	10.0
Loans from pension institutions		1.5	0.8
Trade payables		10.4	12.4
Liabilities to Group companies	16.	117.7	118.8
Other liabilities		39.2	38.8
Accrued expenses and deferred income	17.	15.3	18.6
Current liabilities total		**189.1**	**199.2**
TOTAL LIABILITIES		**278.6**	**295.7**
TOTAL EQUITY AND LIABILITIES		**433.2**	**435.1**

ALTIA PLC STATEMENT OF CASH FLOWS (FAS)

EUR million	Note	31 Dec 2018	31 Dec 2017
CASH FLOW FROM OPERATING ACTIVITIES			
Result before taxes		15.8	28.8
Adjustments			
Depreciation, amortisation and impairment		11.6	11.2
Gain/loss from disposal of property, plant and equipment and intangible assets		-0.5	-0.2
Finance income and costs		-6.0	-16.1
Change in depreciation difference		-1.0	-0.9
Other adjustments		0.6	0.1
		4.8	**-5.9**
Change in working capital			
Change in inventories, increase (-) / decrease (+)		-5.2	2.1
Change in trade and other receivables, increase (-) / decrease (+)		-7.2	5.2
Change in trade and other payables, increase (+) / decrease (-)		-1.9	-4.8
Change in working capital		-14.3	2.6
Interest paid		-1.5	-1.8
Interest received		0.7	1.0
Other finance income and expenses paid		-0.6	-0.9
Income taxes paid		-3.2	-0.5
Financial items and taxes		-4.5	-2.3
NET CASH FLOW FROM OPERATING ACTIVITIES		**1.7**	**23.2**
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		-7.0	-9.7
Proceeds from sale of property, plant and equipment and intangible assets	2.	0.5	0.2
Proceeds from other investments		-	0.0
Repayment of loan receivables		2.0	0.7
Dividends received	5.	7.8	17.7
NET CASH FLOW FROM INVESTING ACTIVITIES		**3.3**	**8.8**

EUR million	Note	31 Dec 2018	31 Dec 2017
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from current borrowings	16.	6.9	30.7
Repayment of current borrowings	16.	-20.7	-23.3
Proceeds from non-current borrowings		20.0	90.0
Repayment of non-current borrowings	15.	-21.3	-73.5
Dividends paid and other distributions of profits	13.	-	-70.5
Share issue, personnel offering		1.2	-
NET CASH FLOW FROM FINANCING ACTIVITIES		**-13.8**	**-46.6**
CHANGE IN CASH AND CASH EQUIVALENTS		**-8.8**	**-14.6**
Cash and cash equivalents at the beginning of the period		49.4	64.0
Change in cash and cash equivalents		-8.8	-14.6
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**40.6**	**49.4**

Notes to Altia Plc financial statements

Accounting policies for financial statements

The financial statements of the parent company are prepared in accordance with the Finnish accounting legislation.

Non-current assets and depreciations

Non-current assets are recognised in the balance sheet at acquisition cost less depreciations. The depreciation periods for non-current assets are:

Trademarks	10–15 years
IT- development and software	3–5 years
Buildings and structures	10–40 years
Machinery and equipment	10 years
Other tangible assets	3–10 years

Inventories

Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices, except cognac products, which are measured at weighted average cost. Fixed production costs are allocated to the cost of own production. Raw materials, supplies and trading goods are measured at weighted average cost. Repacked trading goods are measured at standard cost in repacking plant.

The cost of finished products and work in progress includes raw materials, direct labour costs, other direct costs as well as an allocable proportion of variable procurement and production costs and fixed overheads in case of finished products, determined based on normal operating capacity. Net realisable 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.

Pension plans

The pension plans of the parent company are arranged through pension insurance companies. Pension expenses are accrued to correspond to the performance-based salaries in the financial statements.

Cash Pool

The Group has applied the so called cash pool arrangement, which enables efficient management of the parent company's and subsidiaries' cash and cash equivalents.

Leases

All lease payments are recognised as rental expenses.

Financial Derivatives

Fair value measurement compliant with Chapter 5, section 2a of the Accounting Act is applied to the accounting treatment of financial derivatives.

Derivatives are included in financial assets and liabilities at fair value through profit or loss when they do not meet the criteria of hedge accounting. These derivatives are recognised at fair value on the trade date and they are subsequently measured at fair value at the reporting date. The fair values of derivatives equal the amount that Altia Plc would have to pay or it would receive from the termination of the derivative contract at the reporting date. The fair values of forward exchange contracts are determined by using the market prices at the reporting date. The fair values of interest rate derivatives are determined by discounting the related future cash flows. The valuation of commodity derivatives is determined based on the fair values received from the financial markets.

All derivatives for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy level 1–3. The levels of fair value hierarchy reflect the significance of inputs used in determining the fair values. In level one, fair values are based on public quotations of identical financial instruments. In level two, the inputs used in determining the fair values are based on quoted market rates and prices observable for the asset or liability in question directly (i.e. price) or indirectly on discounted future cash flows. Fair values of other financial assets and liabilities in level two reflect their carrying value. In level three, the fair values of assets and liabilities are based on inputs that are not based on observable market data for all significant variables, and instead are, to a significant extent, based on management estimates and their use in generally accepted valuation techniques.

The fair values of the financial instruments are determined by using the market prices on the closing date of the reporting period.

Hedge accounting

The parent company applies hedge accounting when the change in fair value is recognised in the hedge reserve under equity. In Altia Plc, cash flow hedging is applied to part of the interest rate, foreign currency and electricity derivatives based on case-by-case assessment. In cash flow hedging, Altia Plc is hedging against changes in cash flows related to a specific asset or liability recognised in the balance sheet or to a highly probable future business transaction. In the beginning of the hedging arrangement, company documents the relationship between each hedging instrument and hedged item, as well as the objectives of risk management and the strategy in engaging in hedging. The effectiveness of hedging instruments is tested prospectively according to IFRS 9. Effectiveness means the ability of a hedging instrument to offset the changes in the fair value of the hedged item or changes in the cash flows of the hedged transaction attributable to the hedged risk. The hedging relationship is regarded to be highly effective when there is an economic relationship between the hedged item and the value of the hedging instrument and the value of the hedged item moves to the opposite direction due to same risk. Hedge accounting is discontinued when the criteria for hedge accounting is no longer met.

The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied, are presented in congruence with the hedged item. The effective portion of the unrealised changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in the hedge reserve in equity. The ineffective portion is immediately recognised in profit or loss in finance income or expense.

The cumulative gain or loss in equity on derivative instruments related to commercial items is recognised in profit or loss as an adjustment to purchases or sales simultaneously with the hedged item in the period in which the hedged item affects profit or loss. Realised gain or loss on electricity derivatives is included in operating result in electricity procurement expenses. When a hedging instrument designated as a cash flow hedge expires, is sold or no longer meets the criteria of hedge accounting, the gain or loss accumulated in equity is recognised through profit or loss either as an adjustment to purchases or sales when hedging is effective or as finance income or expense when hedge accounting criteria is not met.

Research and development expenditure

Research and development expenditure is recognised as an annual expense as incurred.

Financial securities

Financial securities are recognised at acquisition cost or lower.

Receivables

Receivables are measured at acquisition cost or probable value, if lower.

Sale of trade receivables

The sold receivables are derecognised when the receivable has been sold and the sales price for it has been received. The related costs are recognised in other financial expenses.

Non-current financial liabilities

Non-current financial liabilities are recognised at acquisition cost.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax legislation, adjustments to taxes in previous financial years and the change in deferred taxes.

Foreign currency denominated items

Foreign currency denominated receivables and liabilities are translated to Finnish currency at the rates of the closing date of the reporting period.

1. NET SALES

EUR million	2018	2017
Net sales by business areas		
Alcohol beverages	100.7	103.3
Industrial services	102.8	95.5
Other	1.8	2.4
TOTAL	**205.3**	**201.2**
Net sales by geographic areas		
Finland	154.9	153.1
Europe	49.3	46.3
Rest of the world	1.0	1.8
TOTAL	**205.3**	**201.2**

2. OTHER OPERATING INCOME

EUR million	2018	2017
Rental income	1.0	1.0
Income from energy sales	3.4	3.4
Proceeds from disposal of non-current assets	0.5	0.2
Service income	13.3	14.4
Other income	1.8	1.6
TOTAL	**20.0**	**20.5**

3. NOTES RELATED TO PERSONNEL

EUR million	2018	2017
Wages and salaries	23.8	24.9
Pension expenses	5.8	4.5
Other social expenses	0.9	1.5
TOTAL	**30.6**	**30.9**

EUR million	2018	2017
Fringe benefits (taxable value)	0.7	0.7

The average number of personnel during the reporting period	2018	2017
Workers	209	212
Clerical employees	218	223
TOTAL	**427**	**435**

Management remuneration, EUR million	2018	2017
CEO	0.6	0.6
Board members	0.3	0.2

Pension commitments of the Board and CEO

The retirement age of the CEO of the company is 63 years.

4. OTHER OPERATING EXPENSES

EUR million	2018	2017
Rental expenses	2.2	2.2
Marketing expenses	6.2	6.1
Energy expenses	7.2	6.9
Travel and representation expenses	1.3	1.1
Repair and maintenance expenses	6.2	5.9
IT expenses	6.4	6.1
Outsourcing services	6.8	5.5
Variable sales expenses	5.7	5.2
Other expenses	8.6	9.5
TOTAL	**50.5**	**48.6**
Auditor's fees		
Audit fees	0.1	0.1
Tax consultation	0.0	0.0
Other fees	0.5	0.4
TOTAL	**0.6**	**0.5**

Environmental expenses

The company's environmental expenses did not have a significant impact on the profit for the period and on the financial position.

5. FINANCE INCOME AND EXPENSES

EUR million	2018	2017
Dividend income		
From Group companies	6.7	16.6
From participating interest undertakings	0.9	0.9
From others	0.1	0.2
Total dividend income	7.8	17.7
Interest income		
From Group companies	0.4	0.5
From others	0.1	0.3
Total interest income	0.4	0.7
Other finance income		
From others	3.3	4.0
Total other finance income	3.3	4.0
TOTAL FINANCE INCOME	11.5	22.4
Interest expenses		
To Group companies	0.1	0.1
To others	1.6	1.3
Total interest expenses	1.7	1.5
Other finance expenses		
To others	3.8	4.9
Total other finance expenses	3.8	4.9
TOTAL FINANCE EXPENSE	**5.5**	**6.3**
TOTAL FINANCE INCOME AND EXPENSES	**6.0**	**16.1**
The following items are included in finance items of the income statement from fair value hedges:		
Other finance income		
Fair value changes of derivatives	0.1	0.2
Other finance expenses		
Fair value changes of derivatives	-	-0.1

6. APPROPRIATIONS

EUR million	2018	2017
Difference between depreciations according to plan and depreciations made in taxation:		
Intangible rights	0.0	0.0
Other intangible assets	-0.3	-0.1
Buildings and structures	0.7	0.6
Machinery and equipment	0.6	0.5
Other tangible assets	-0.0	-0.0
TOTAL	**1.0**	**0.9**

7. INCOME TAX EXPENSE

EUR million	2018	2017
Income taxes from current period	-1.7	-2.2
Income taxes from previous periods	-0.1	0.0
Change in deferred tax assets	0.1	-0.0
TOTAL	**-1.7**	**-2.2**

8. SPECIFICATION OF NON-CURRENT ASSETS

EUR million	2018	2017
Intangible assets		
Intangible rights		
Acquisition cost at 1 January	30.1	27.7
Additions	0.9	1.7
Disposals	-0.0	-0.4
Transfers between items	1.7	1.1
Acquisition cost at 31 December	**32.7**	**30.1**
Accumulated amortisation at 1 January	-17.5	-15.1
Accumulated amortisation on disposals and transfers	0.0	0.4
Amortisation for the period	-3.2	-2.8
Accumulated amortisation at 31 December	-20.7	-17.5
CARRYING AMOUNT AT 31 DECEMBER	**12.0**	**12.6**
Goodwill		
Acquisition cost at 1 January	17.6	17.6
Acquisition cost at 31 December	**17.6**	**17.6**
Accumulated amortisation at 1 January	-17.6	-17.6
Accumulated amortisation at 31 December	-17.6	-17.6
CARRYING AMOUNT AT 31 DECEMBER	**-**	**-**
Other intangible assets		
Acquisition cost at 1 January	24.3	27.5
Additions	0.0	-1.3
Transfers between items	-	-1.8
Acquisition cost at 31 December	**24.3**	**24.3**
Accumulated amortisation at 1 January	-15.0	-14.9
Accumulated amortisation on disposals and transfers	-	1.5
Amortisation for the period	-1.6	-1.6
Accumulated amortisation at 31 December	-16.6	-15.0
CARRYING AMOUNT AT 31 DECEMBER	**7.7**	**9.3**
Prepayments in intangible assets		
Acquisition cost at 1 January	2.8	1.7
Additions	0.6	2.1
Transfers between items	-1.7	-1.0
CARRYING AMOUNT AT 31 DECEMBER	**1.7**	**2.8**

EUR million	2018	2017
Tangible assets		
Land and water areas		
Acquisition cost at 1 January	2.5	2.5
Disposals	-0.0	-0.0
CARRYING AMOUNT AT 31 DECEMBER	**2.4**	**2.5**
Buildings and structures		
Acquisition cost at 1 January	94.8	94.2
Additions	1.0	1.4
Transfers between items	0.6	0.8
Disposals	-0.5	-1.7
Acquisition cost at 31 December	**95.9**	**94.8**
Accumulated depreciation at 1 January	-71.8	-70.8
Accumulated depreciation on disposals and transfers	0.5	1.6
Depreciation for the period	-2.7	-2.6
Accumulated depreciation at 31 December	-74.0	-71.8
CARRYING AMOUNT AT 31 DECEMBER	**21.9**	**23.0**
Machinery and equipment		
Acquisition cost at 1 January	110.1	106.4
Additions	3.0	1.1
Disposals	-1.0	-0.4
Transfers between items	4.0	3.0
Acquisition cost at 31 December	**116.2**	**110.1**
Accumulated depreciation at 1 January	-85.1	-79.8
Accumulated depreciation on disposals and transfers	0.8	-1.1
Depreciation for the period	-4.1	-4.2
Accumulated depreciation at 31 December	-88.4	-85.1
CARRYING AMOUNT AT 31 DECEMBER	**27.8**	**25.0**
Other tangible assets		
Acquisition cost at 1 January	0.5	0.5
Acquisition cost at 31 December	0.5	0.5
CARRYING AMOUNT AT 31 DECEMBER	**0.5**	**0.5**
Prepayments and assets under construction		
Acquisition cost at 1 January	4.7	2.1
Additions	1.5	4.7
Transfers between items	-4.7	-2.0
CARRYING AMOUNT AT 31 DECEMBER	**1.5**	**4.7**
CARRYING AMOUNT OF MACHINERY AND EQUIPMENT USED IN PRODUCTION AT 31 DECEMBER	**27.1**	**24.2**

EUR million	2018	2017
Investments		
Holdings in Group companies		
Acquisition cost at 1 January	358.3	358.3
Acquisition cost at 31 December	**358.3**	**358.3**
Accumulated impairment at 1 January	-151.5	-151.5
Accumulated impairment at 31 December	-151.5	-151.5
CARRYING AMOUNT AT 31 DECEMBER	**206.8**	**206.8**
Participating interests		
Acquisition cost at 1 January	8.0	8.0
CARRYING AMOUNT AT 31 DECEMBER	**8.0**	**8.0**
Other shares and investments		
Acquisition cost at 1 January	0.8	0.8
Disposals	-	-0.0
CARRYING AMOUNT AT 31 DECEMBER	**0.8**	**0.8**

9. INVENTORY

There is no significant difference between the repurchase price and cost of inventories.

10. NON-CURRENT RECEIVABLES

EUR million	2018	2017
Receivables from Group companies		
Loan receivables	15.8	17.8
Deferred tax assets		
Recognised in hedge reserve	-	0.1
Provisions	0.1	-
Fixed assets deferred depreciations	0.4	0.4
Deferred tax assets total	0.5	0.5
TOTAL NON-CURRENT RECEIVABLES	**16.3**	**18.3**

11. CURRENT RECEIVABLES

EUR million	2018	2017
Receivables from Group companies		
Trade receivables	3.0	3.0
Cash Pool receivables	0.4	-
Other receivables	4.8	5.0
Derivatives	0.1	0.0
Accrued income and prepaid expenses	3.9	1.8
Total	**12.2**	**9.8**
Receivables from participating interest undertakings		
Trade receivables	0.1	0.2
Total	**0.1**	**0.2**
Receivables from others		
Trade receivables *	25.3	20.1
Other receivables	0.0	-
Accrued income and prepaid expenses	3.6	2.8
Total	**29.0**	**22.9**
TOTAL CURRENT RECEIVABLES	**41.3**	**32.9**

Accrued income and prepaid expenses		
Significant items in accrued income and prepaid expenses:		
Derivatives	1.6	1.4
Taxes	0.6	-
Others	1.5	1.4
Total	**3.6**	**2.8**

* Does not include the sold trade receivables

12. DISCLOSURES ON FAIR VALUES (DERIVATIVES)

EUR million	2018 Fair value 31 Dec	2018 Changes in the fair value recognised in the income statement	2018 Changes in the fair value recognised in fair value reserve	2017 Fair value 31 Dec	2017 Changes in the fair value recognised in the income statement	2017 Changes in the fair value recognised in fair value reserve
Derivative instruments						
Interest rate derivatives (level 2)	-1.3	-	-1.3	-1.4	-	-1.4
Foreign exchange derivatives (level 2)	0.1	0.1	-0.0	0.9	0.2	0.7
Commodity derivatives (level 2)	1.3	-	1.3	0.3	-0.1	0.3
TOTAL	**0.1**	**0.1**	**0.0**	**-0.2**	**0.2**	**-0.4**

13. EQUITY

EUR million	2018	2017
Restricted equity		
Share capital at 1 January	60.5	60.5
Share capital at 31 December	**60.5**	**60.5**
Hedge reserve at 1 January	-0.4	-1.3
Additions and disposals	0.4	0.9
Hedge reserve at 31 December	**0.0**	**-0.4**
Total restricted equity	**60.5**	**60.1**
Unrestricted equity		
Invested unrestricted equity fund	1.2	-
Retained earnings at 1 January	56.8	100.7
Distribution of dividends	-	-70.5
Profit for the period	14.1	26.5
Total unrestricted equity	**72.1**	**56.8**
TOTAL EQUITY	**132.6**	**116.9**
Distributable unrestricted equity		
Calculation of distributable equity		
Invested unrestricted equity fund	1.2	-
Retained earnings	56.8	100.7
Distribution of dividends	-	-70.5
Profit for the period	14.1	26.5
TOTAL DISTRIBUTABLE UNRESTRICTED EQUITY	**72.1**	**56.8**
Distribution of the company's share capital:		
A series shares pcs	36 140 485	35 960 000

14. APPROPRIATIONS

EUR million	2018	2017
Depreciation difference		
Intangible rights	2.7	2.4
Other intangible assets	0.1	0.1
Buildings and structures	3.5	4.3
Machinery and equipment	15.3	15.8
Other tangible assets	-0.0	-0.0
TOTAL	**21.6**	**22.6**

15. LIABILITIES

EUR million	2018	2017
Non-current		
Loans from financial institutions	70.0	75.0
Loans from pension institutions	12.8	14.3
Liabilities to Group companies	1.8	2.3
Deferred tax liabilities	0.0	-
Other liabilities	4.9	4.9
TOTAL	**89.5**	**96.5**

16. LIABILITIES TO GROUP COMPANIES

EUR million	2018	2017
Trade payables	1.3	0.9
Liabilities to Group companies	29.3	22.3
Cash Pool liabilities	84.3	94.6
Derivative instruments	0.1	0.1
Other accrued expenses	2.8	0.8
TOTAL	**117.7**	**118.8**

17. ACCRUED EXPENSES AND DEFERRED INCOME

EUR million	2018	2017
Significant items under accrued expenses:		
Holiday pay and other wages and salaries	5.4	7.2
Contract discount	0.5	0.5
Procurement expenses and other accrued expenses	7.9	8.6
Taxes	-	0.8
Derivative instruments	1.5	1.5
TOTAL	**15.3**	**18.6**

18. COLLATERALS AND COMMITMENTS

EUR million	2018	2017
Collaterals given on behalf of the Group companies		
Mortgages	18.5	18.5
Guarantees	5.3	6.4
TOTAL COLLATERALS	**23.8**	**24.9**
Commitments and other contingencies		
Operating and finance lease obligations		
Not later than one year	0.6	0.7
Later than one year	0.5	0.8
Total	**1.1**	**1.5**
Lease obligations		
Not later than one year	0.7	0.8
Later than one year	1.4	2.6
Total	**2.1**	**3.3**
Other obligations		
Not later than one year	3.6	4.7
Total	**3.6**	**4.7**
TOTAL COMMITMENTS	**6.8**	**9.6**

VAT liability for real estate investments

The company is liable to review VAT deductions made for real estate investments completed in 2010–2018 if the use subject to VAT decreases during the review period. The maximum liability is EUR 1.3 million and the last year to review is 2027.

Derivative contracts EUR million	2018	2017
Electricity derivatives		
Fair value	1.3	0.3
Nominal value	1.9	2.5
Amount (TWh)	0.1	0.1
Parent company's external forward exchange contracts		
Fair value	0.1	1.0
Nominal value	64.6	55.0
Parent company's internal forward exchange contracts		
Fair value	0.0	-0.1
Nominal value	18.9	11.3
Interest rate derivatives		
Fair value	-1.3	-1.4
Nominal value	20.0	20.0

Emission allowances (kilotons)	2018	2017
Emission allowances received	26.9	27.4
Excess emission allowances from the previous year	45.6	39.2
Adjustments related to prior year's estimates	0.0	-0.0
Sold emission allowances	-20.0	-
Realised emissions	-21.9	-21.0
EMISSION ALLOWANCES AT 31 DECEMBER	**30.6**	**45.6**
Fair value of the remaining emission allowances, EUR million	0.7	0.4

The received emission allowances and the realised emission of the year 2018 are estimates which will be adjusted during spring 2019 if necessary. Altia continues to operate within the emission trading system for the trading period 2013–2020.

19. RELATED PARTY TRANSACTIONS

Related party transactions are carried out at market value. More information about related party transactions is presented in Group Note 6.3. (p. 161). Management remuneration is presented in Altia Plc Note 3 (p. 133).

Board of Directors' proposal for the distribution of profits

According to the balance sheet at 31 December 2018, Altia Plc's distributable earnings amount to EUR 72 084 125.87 including profit for the period of EUR 14 102 839.85.

There have been no significant changes to the parent company's financial position at the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.38 per share be paid for the financial year 2018.

Signatures to the Board of Directors' Report and to the financial statements

Helsinki, 6 February 2019

Sanna Suvanto-Harsaae
chairman

Annikka Hurme | Kim Henriksson | Tiina Lencioni

Torsten Steenholt | Kai Telanne | Jukka Ohtola

Pekka Tennilä
CEO

The Auditors`Note

An auditor´s report concerning the performed audit has been given to date.

Helsinki, 11 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Altia Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Altia Oyj (business identity code 1505555-7) for the year ended 31 December 2018. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

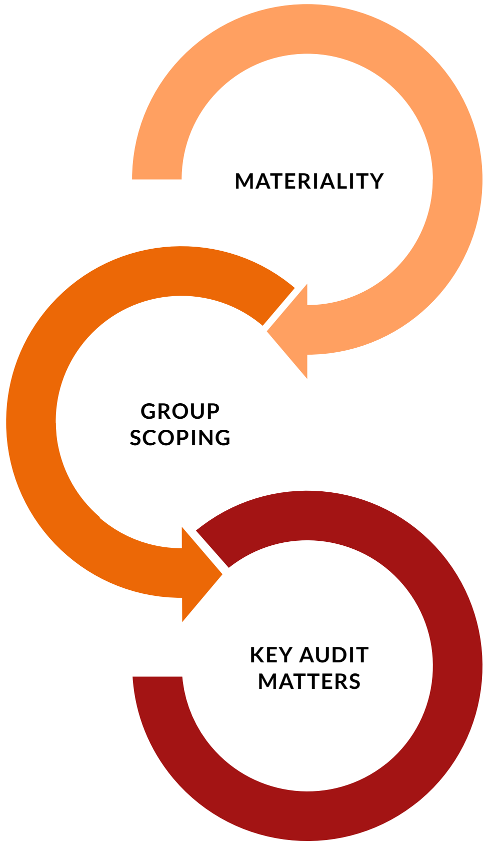
We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

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

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 1.6. (p. 120) to the Financial Statements.



Our Audit Approach

Overview

MATERIALITY

- Overall group materiality: € 3.5 million

GROUP SCOPING

- The group audit included the parent company and all significant subsidiaries covering the vast majority of net sales, assets and liabilities.

KEY AUDIT MATTERS

- Revenue recognition
- Valuation of goodwill
- Valuation of inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 3.5 million
How we determined it	1% of net sales
Rationale for the materiality benchmark applied	We chose net sales as the benchmark because, in our view, it reflects the volume of operations and growth objectives of the group and it is a benchmark against which the performance of the group is commonly measured by users. Net sales is a generally accepted benchmark. We chose 1 % of net sales, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the size, complexity and risks of individual subsidiaries. Altia Group has operations in the Nordic countries, Baltics and France. The main accounting areas for subsidiaries in the Nordic countries are handled centrally in Finland.

We performed group audit procedures on all significant account balances covering the vast majority of the group's net sales, assets and liabilities. In addition, we performed analytical procedures at group level of the remaining balances.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Revenue recognition Refer to note 1.1. (p. 116) in the consolidated financial statements Altia's revenue flows are generated by the sale of own products and partner brands, contract manufacturing and sale of industrial products. The transaction price may include variable considerations such as volume discounts, bonuses, marketing support and product returns. Due to a variety of contractual terms, the calculation of period's variable components is a complex accounting area that include management judgement. We have accordingly considered the risk that revenue is not recorded in the correct period to be a key audit matter.	Our audit procedures included e.g. the following: • We gained an understanding of the nature of the revenue flows and different contractual terms used. • We compared the accounting treatment of a sample of sales transactions and variable consideration to the terms of underlying contracts. • We assessed the Group's accounting policies over revenue recognition, in particular the appropriate application of the new accounting standard IFRS 15 "Revenue from contract with customers". • We tested a sample of sales transactions against incoming cash. • We tested a sample of sales invoices recorded in December 2018 and January 2019 to evaluate that revenue had been recognised in the right period. • For selected revenue and accounts receivable balances we obtained customer confirmations.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Valuation of goodwill Refer to note 2.1. (p. 121) in the consolidated financial statements The Group reports goodwill totaling to EUR 80,7 million as of 31 December 2018, arising from past business acquisitions. The company tests goodwill for potential impairment annually and whenever there is an indication that the carrying value may be impaired when comparing the recoverable amount against the carrying value of the goodwill. Impairment tests are performed at operating segment level. The recoverable amounts are determined using value in use method. Valuation of goodwill is a key audit matter due to the high level of management judgement involved in relation to the estimates of future cash flows.	Our audit of goodwill valuation focused on critical estimates and management's judgement. We have assessed the appropriateness of these through the following procedures: • We tested the methodology applied in the value in use calculation by comparing it to the requirements of IAS 36, "Impairment of Assets", and we tested the mathematical accuracy of the calculations. • We evaluated the process where the future cash flow forecasts were drawn up, including sales and profitability forecasts and discount rates • To corroborate the reliability of management's estimates, we compared the current year actual results to the information used in the prior year impairment calculation. • We considered the appropriateness of assumptions used in the sensitivity analysis performed by management. • We considered the appropriateness of the related disclosures provided in the Group financial statements.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Valuation of inventory Refer to note 2.3. (p. 128) in the consolidated financial statements Inventory forms a significant part of the Group's assets, amounting to EUR 99,6 million as of 31 December 2018. Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices or weighted average cost. Fixed production costs are allocated to the cost of own production. Management exercises judgement and applies assumptions when estimating the need for an obsolescence provision. This includes identification of slow moving and seasonal products, changes in product portfolio and consideration of sales forecasts. Given the factors described above, we have considered valuation of inventory to be a key audit matter.	Our audit procedures included e.g. the following: • We gained an understanding of the controls established in relation to inventory valuation. • We assessed the adequacy of the obsolescence provision and checked adherence to the Group's accounting policy. • We tested, on a sample basis, the accuracy of cost for self-manufactured products by comparing the actual production costs to market and other price data. • We tested a sample of inventory items to confirm whether they are held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices. • For a sample of warehouses, we attended the physical stock-take counting or reconciled third party confirmations with the accounting records.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 29 March 2016. Our appointment represents a total period of uninterrupted engagement of 3 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.
Our opinion on the financial statements does not cover the other information.
In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

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

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

Helsinki 11 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant (KHT)

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Directors' Report

ARCUS ASA

Arcus ASA is a holding company whose purpose is the import, export, production, storage and distribution of alcoholic beverages and other goods, as well as other activities related to this business, and the ownership of interests in other companies that conduct such business. With its head office at Gjelleråsen in Nittedal Municipality, the Group is a leading wine and spirits company in the Nordic region. The Group is a global market leader in the aquavit category, a market leader in spirits in Norway and number two in Denmark. The Group is also the market leader for wine in Norway, number two in Sweden, and number three in Finland.

STRATEGY

Within **spirits**, Arcus' key objective is to achieve growth in the core categories of aquavit and bitters. Sales in the Nordic region must be further developed, while the German market must be revitalised. Innovation is key, in terms of categories, consumer groups and occasions.

For **wine**, there is strong focus on winning tenders and attracting complementing agencies. Further development of own brands, primarily through Arcus Wine Brands, is also important. The opportunity for minority ownership interests must be used actively to attract skilled individuals for starting up wine companies.

Concerning **distribution**, there is sustained focus on cost optimisation and on increasing revenue primarily by attracting new customers.

The Group's financial objectives, adopted in conjunction with the Group's IPO on 1 December 2016, are firm. This requires organic growth of 3-5 per cent per annum (including minor bolt-on acquisitions) and EBITDA growth of 6-9 per cent per annum during the next three to five years. The Group's ambition is to pay annual dividend of around 50-70 per cent of the year's net profit.

The consolidated financial statements of Arcus ASA are presented in accordance with IFRS (International Financial Reporting Standards).

FINANCIAL DEVELOPMENT

Statement of income

In 2017, the Group's total operating revenue was NOK 2,575 million (NOK 2,582 million in 2016). New customers for Vectura, as well as acquisitions, contributed positively to revenue, while sales of wine and spirits were more subdued compared to the previous year, as a consequence of low market growth and somewhat lower market shares in a few markets.

Consolidated operating costs totalled NOK 2,292 million (NOK 2,305 million). The cost decrease is mainly related to a lower cost of sales.

In 2017, the Group's operating profit before depreciation (EBITDA) was NOK 348 million, compared with NOK 290 million in 2016. Operating EBITDA (adjusted for non-recurring items) was NOK 361 million, compared with NOK 335 million in 2016. Reported operating profit of NOK 273 million includes impairment of goodwill in Excellars, acquired in 2011, at NOK 22.7 million.

The Group's net financial items amounted to NOK -15 million (NOK -237 million). The reduction in net financial items is primarily related to the lapse of the previous year's IPO costs and the buy-out of previous and current employees' synthetic shares and options. In addition, the company's interest costs were significantly lower, due to a lower debt ratio after the IPO.

The Group's pre-tax profit was NOK 259 million (NOK 2 million).

The Group's profit for the year after tax was NOK 188 million (NOK -24 million).

The parent company has no operating revenues. The pre-tax profit of the parent company, Arcus ASA, was NOK 48 million, compared with NOK -233 million for the previous year. The increase is mainly related to how 2016 was burdened with high costs for the IPO which do not affect 2017, while for 2017 a Group contribution from the subsidiary Arcus-Gruppen AS of NOK 65 million was recognised, compared to 0 in 2016.

Financial position, investments and liquidity

At the end of the year, the Group had brands and goodwill of NOK 1,862 million (NOK 1,679 million). The increase is mainly related to the acquisition of the Hot n'Sweet and Vanlig brands, as well as currency adjustments concerning brands and goodwill in foreign currency.

At the close of the year, the Group had investments in fixed assets and software for NOK 359 million (NOK 381 million). In 2017, the Group invested NOK 22 million in fixed assets and software, while depreciation of NOK 44 million resulted in a lower book value at the end of 2017 compared to the end of 2016. No significant investments are expected in the coming years.

At the end of 2017, financial assets totalled NOK 60 million (NOK 58 million).

Total current assets were NOK 2,114 million, compared with NOK 2,004 million at the same time last year. Of this amount, receivables at year-end totalled NOK 1,519 million (NOK 1,426 million).

At the end of 2017, cash and bank deposits were NOK 184 million (NOK 199 million).

Group equity was NOK 1,669 million as at 31 December (NOK 1,503 million). Changes in equity are affected positively by the profit for the year, but reduced by the divided paid to minority shareholders in the Group and share-holders in the parent company. At year-end, the equity ratio was 37 per cent, compared with 35 per cent at the end of 2016.

The Group is financed through a non-current loan of NOK 749 million. In addition, the Group has debt of NOK 183 million related to financial leasing, of which NOK 17 million falls due during 2018. At year-end, the Group had drawn NOK 73 million on the facility under the Group cash pool system. As of 31 December 2017, the Group's total liabilities amounted to NOK 2,863 million (NOK 2,792 million), of which the interest-bearing debt amounted to 35 per cent.

Consolidated net cash flow from operating activities was NOK 200 million (NOK -2 million). The increase is affected significantly by the termination of the factoring agreement with SEB in 2016 (NOK -225 million effect on the previous year's cash flow).

Net cash flow from investment activities was NOK -144 million (NOK -47 million). Net cash flow from investment activities is affected by the acquisition of the Vanlig and Hot n'Sweet brands.

Net cash flow from financing activities was NOK -164 million (NOK 75 million). Net cash flow from financing activities is affected by dividend payment, as well as increased ownership interests in subsidiaries with non-controlling interests.

Holdings of cash and cash equivalents were NOK 112 million (NOK 199 million). Deviations between the company's operating profit and operating cash flow are the Group's financial expenses, changes in working capital and tax paid during the period.

Financial risk and risk management

The Board has adopted a financial policy, defining the framework and guidelines for financial risk management within the Group.

Arcus' principal source of income is the core business. The main risk management strategy for the Group is to limit the financial risk created by the core business.

The most important financial risks to which the Group is exposed are associated with credit risk, interest rate risk, liquidity risk and foreign currency risk.

To a small extent, Arcus uses financial instruments to hedge interest rate and currency risks. The Group does not meet the accounting requirements for hedge accounting, and such instruments are therefore, on initial recognition, accounted for as financial instruments at fair value, while changes in value are recognised through profit or loss.

Credit risk

The finance policy stipulates that credit risk must be assessed before establishing credit purchase agreements with new customers. The assessment includes a review of accounting information, as well as other relevant and accessible data, to determine the credit limit and credit terms. Once a relationship has been established with a customer, credit risk and credit limits are continuously assessed in relation to the client's financial performance and payment history. Receivables outstanding are continuously monitored by the finance department in cooperation with the marketing departments of the individual businesses.
A large proportion of the Group's accounts receivable arise from the sale of wines and spirits to the state-owned monopoly outlets in the Nordic region. Credit risk associated with these customers is considered to be non-existent. The Group's credit risk is otherwise spread over a large number of small customers within the hotel, restaurant

and café market, as well as a small number of distributors outside the Nordic region.

Interest rate risk
The Group is exposed to interest rate risk via financing activities (debt financing and financial leasing liabilities) and investments (bank deposits). At the end of 2017, the Group's non-current liabilities consisted of credit facilities at SEB and financial leasing at Nordea Finans. The interest rate hedging policy entails that up to 50 per cent of the base rate on non-current loans can be hedged. At the end of 2017, none of the Group's interest-bearing debt was hedged. The interest rate margin on credit facilities at SEB is related to the size of the Group's net interest-bearing debt relative to EBITDA, while the agreement with Nordea Finans involves a fixed interest rate margin.

Liquidity risk
Liquidity risk is the risk that the Group will not be in a position to service its financial liabilities as they fall due. Arcus must at all times have sufficient liquidity to meet its obligations. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance.

Arcus aims for the highest possible degree of flexibility in terms of utilising liquid assets as effectively as possible in day-to-day operations. This is achieved through a Group cash pool system with a drawing facility managed by Arcus AS.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. During 2017, the Arcus Group acquired the remaining 50 per cent of the shares in the DDSK A/S Group, 100 per cent of the shares in BevCo AS, the Vanlig brand and the Hot n'Sweet brand, and also acquired further non-controlling interests in existing subsidiaries for NOK 13 million. All of these acquisitions were financed with own liquidity and existing drawing facilities.

The Group did not raise new non-current loans in 2017, but renewed the existing financial leasing with Nordea.

Currency risk
The Group is exposed to currency risk as it operates in several countries and makes significant purchases in foreign currencies. The most significant currencies are euro, Danish krone, Swedish krona and US dollar.

The Group's currency exposure can mainly be divided into two groups: cash flow risk and translation risk. The principal objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in Norwegian kroner. Changes in purchase costs from suppliers in functional currency, due to exchange rate fluctuations, are continuously sought to be offset by changes in customer prices and through renegotiation of purchase prices from suppliers.

The risk horizon, i.e. the time it takes to compensate for negative currency movements, is generally controlled by the price-adjustment opportunities in relation to the Nordic state monopolies. In Norway, this takes place every fourth month and in Sweden, every sixth month. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions.

Some of the Group's non-current borrowing is undertaken in Swedish kronor, as a natural hedging of cash flows in the form of dividends in Swedish kronor.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rates in the companies' functional currencies. The Group's presentation currency is Norwegian kroner. The Group is therefore further exposed to currency risk on translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged.

ABOUT THE COMPANY
Arcus ASA owns all of the shares in Arcus-Gruppen AS and Vectura AS. The purpose of the company is to manage shares and other company holdings and the Group operates in the business areas of spirits, wine and distribution.

The Spirits business area imports, produces, bottles, markets and sells wine and spirits primarily in the Nordic region and Germany, but also in other selected export markets. The company also provides bottling services for associated companies.

The Wine business area imports, bottles, markets and sells wine in Norway, Sweden and Finland.

The Distribution business area distributes alcoholic beverages in the Norwegian market.

The company's registered office is in Nittedal Municipality, Norway.

Employees, working environment and sick leave
At year-end, the Group had 420.9 FTEs (Full Time Equivalents) distributed as 427 permanent employees, of whom 339 are employed in Norway. The parent company Arcus ASA has two employees

The Board considers the working environment and cooperation with employee representatives to be good and constructive. The co-involvement of employees is ensured at several levels of the Group. Permanent cooperation committees, consisting of employee representatives and representatives from management, have been set up in the operating companies in Norway. At these meetings, the management provides information, and engages in discussions when needed. A corporate

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2017 DISTRIBUTED BY COUNTRY

	Norway	Sweden	Denmark	Finland	Germany	Total
Women	96	28	4	11	1	140
Men	243	26	11	7		287
Total	**339**	**54**	**15**	**18**	**1**	**427**

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2017 DISTRIBUTED BY BUSINESS AREA

	Men	Women	Total
Spirits	97	50	147
Wine	32	49	81
Arcus-Gruppen AS	23	14	37
Vectura AS	133	27	160
Arcus ASA	2	-	2
Total	**287**	**140**	**427**

committee has also been established where the employees' Board members and key representatives meet before each Board meeting to discuss relevant, Group-wide issues.

The Group's operating companies work systematically with health, safety and the environment. Individual action plans are established and followed up centrally, in the business areas and in the working environment committees.

The Norwegian companies in Arcus ASA are IA (inclusive working life) companies in Norway, and work closely with the occupational health service and NAV (the Norwegian Labour and Welfare Administration) to reduce sick leave. Individual follow-up and facilitation are important tools in this work. In 2017, sick leave for Arcus-Gruppen AS with subsidiary in Norway was 4.2 per cent. The objective for 2018 is for sick leave not to exceed 4.2 per cent. In 2017, sick leave amounted to 8.9 per cent in Vectura AS. The objective for 2018 is for sick leave not to exceed 7.5 per cent. Sick leave varies between departments and business areas.

Sick leave statistics and HSE incidents are presented each month at departmental meetings and on bulletin boards, and are considered by the working environment committees.

To avoid serious injuries and incidents, it is important to have an organisation and culture that identifies hazardous conditions, registers adverse incidents and introduces corrective measures on an ongoing basis. In this respect, the operating companies in the Group have been successful Adverse incidents are reported regularly. These incidents are reported on a monthly basis to management, employees, working environment committees and safety representatives.

All injuries are investigated to discover the underlying cause, and measures are then implemented to avoid similar incidents.

In 2017, there were seven injuries resulting in absence due to illness (five in Vectura AS and two in Arcus Norway AS). The injuries were not serious and the persons returned to work after brief periods of absence. The Group's goal for 2018 is zero absence due to injuries.

Equal opportunities

Of the Group's 427 employees at year-end, 32.4 per cent were women and 67.6 per cent were men, compared with 30.0 per cent women and 70.0 per cent men in the previous year. The management groups of the operating companies all have female members. The Group Management of Arcus ASA consists of nine men.

At the end of 2017, the Board of Directors of the holding company (Arcus ASA) comprised ten Board members, of whom four were women. Three members of the Board of Directors are elected by the employees, and one of these members is a woman. The proportion of female members of the Board of Directors thereby fulfils the statutory requirements concerning female representatives on an ASA's board of directors.

In connection with the local salary settlement in 2017 in Norway, the parties reviewed the situation concerning equal opportunities and equal pay. The parties agreed that satisfactory consideration is made of equal pay and equal opportunities.

The Group's goal for the operating companies is for them to be workplaces with no discrimination or harassment in any form. Both the working regulations and the ethical rules have guidelines in this respect. In addition, good reporting routines have been established.

At the end of 2017, the employees represented around 35 different languages. The Group has a stated policy, included through ethical rules, not to discriminate on the basis of gender, disability, ethnicity, religion, etc. The Board of Directors and the management groups

of the operating companies' consider this in relation to recruitment, appointments, salaries and working conditions, as well as through awareness-raising activities.

Data protection

On 25 May 2018, the new EU General Data Protection Regulation (GDPR) will enter into force. The key aspects of the existing legislation are continued, with additions comprising extensive new requirements of companies which process personal data. For Arcus this entails extensive investigation and documentation work.

In 2017, Arcus commenced the work of mapping current personal data, as well as procedures, systems and documentation related to the processing of all personal data, and gap analyses, production and documentation, as well as implementation and operation. In early 2018, procedures for compliance, control and auditing will also be reviewed, so that Arcus will handle personal data protection in accordance with the new Regulation when it enters into force.

Environment

Consideration for the external environment is an important part of corporate social responsibility at Arcus. The Group's operations affect the external environment via the production and distribution of its products. Arcus supports a precautionary approach to environmental challenges, and works systematically to reduce the impact of its activities on the external environment. As an element of Arcus' CSR work, concrete KPIs have been set for carbon dioxide reduction and increased recirculation of waste.

Alcohol

Arcus takes a clear stance on responsible alcohol consumption. Our aim is to raise awareness and understanding among all of the target groups which are relevant for Arcus about our corporate approach to alcohol and responsible consumption. This is the background to the important "Think before you drink" campaign, which has been further developed since it was first launched in 2015. "Think before you drink" is both an internal and external awareness campaign, reaching all employees and all stakeholders in contact with Arcus. In 2017, Arcus ran a campaign which targeted high school graduates. The "Think before you drink" message was shared on the high school graduates' own digital channels. At the four big parties at Tryvann in Oslo, 6,000 bottles of water were distributed to high school graduates, and it was easy for the young people to refill the bottles with water. Arcus was not identified as the originator of the initiative.

AKAN (organisation to prevent alcohol abuse at work) committees and AKAN contacts have also been established in the operating companies. This is an integrated element of the Annual Report.

The Annual Report includes a separate report on Arcus' corporate social responsibility and organisation.

Ownership

On 1 December 2016, Arcus ASA was listed on the Oslo Stock Exchange, and at year-end 2017/18 had 2,622 shareholders. At the close of the year, three shareholders each held more than 5 per cent of the company's shares: Canica AS (33.3 per cent), Geveran Trading Co Ltd (9.9 per cent) and Verdipapirfondet DNB Norge (IV) (5.3 per cent). Each quarterly result has been presented to investors in Oslo and London. In addition, the result for Q1 was presented to investors in Helsinki, and the result for Q2 in Stockholm.

The Annual Report includes a separate report on Arcus' corporate governance compliance. This is an integrated element of the Annual Report.

Continued operations

In accordance with Section 3-3a of the Norwegian Accounting Act, it is confirmed that the company is a going concern. The basis for this lies in the long-term plans and strategic choices that have been made.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

No significant events have occurred after the close of the financial year, between the date of the statement of financial position and the Board of Directors' consideration of the financial statements for 2017.

APPROPRIATION OF PROFITS

The parent company Arcus ASA reported a result for the year of NOK 31.0 million in 2017, compared with NOK -199.7 million in 2016. The Board proposes the allocation of dividend of NOK 1.66 per share, in total NOK 112.9 million, and that the profit of NOK 31.0 million be transferred to other equity.

FUTURE PROSPECTS

In conjunction with the IPO, the company published its long-term growth targets, including organic revenue growth of 3-5 per cent including minor bolt-on acquisitions, and EBITDA growth of 6-9 per cent in the next three to five years. The Board continues to set these targets as the basis for the Group's continued development.

DECLARATION

The Board of Directors and the General Manager confirm that, to the best of their knowledge, the annual financial statements have been prepared in accordance with current accounting standards and that the information presented in the financial statements provides a true and fair view of the assets, debt, financial position and overall results of the Group. The Board of Directors and the General Manager also confirm that, to the best of their knowledge, the annual financial statements present a true and fair view of the development, results and position of the company and the Group, and a good description of the most central risk and uncertainty factors faced by the company.

Gjelleråsen 15 March 2018

Michael Holm Johansen Chairman of the Board	Stein Erik Hagen	Hanne Refsholt	Eilif Due
Trond Berger	Leena Saarinen	Erik Hagen	Kjell Arne Greni
Ingrid E. Skistad	Ann-Beth Freuchen	Kenneth Hamnes Group CEO	

BOARD OF DIRECTORS

Michael Holm Johansen
Chairman of the Board

Stein Erik Hagen
Board member

Hanne Refsholt
Board member

Eilif Due
Board member

Trond Berger
Board member

Leena Saarinen
Board member

Ann-Beth Freuchen
Board member

Erik Hagen
Board member

Kjell Arne Greni
Board member

Ingrid E. Skistad
Board member

Financial Statements and Notes

CONSOLIDATED FINANCIAL STATEMENTS

Statement of income 01.01.-31.12.

Figures in NOK 1,000	Note	2017	2016
OPERATING REVENUE AND EXPENSES			
Sales revenues	4,5	2,530,126	2,521,826
Other operating revenues	4,5	44,934	60,571
Total operating revenues	**4,5**	**2,575,060**	**2,582,397**
Net gain on sale of fixed assets	3,14,15	30	144
Cost of sales	6,18	-1,408,524	-1,467,920
Salaries and other personnel costs	8,9,10	-417,412	-392,545
Depreciation and amortisation	14,15	-51,581	-51,625
Write-downs	14,15	-22,700	0
Other operating expenses	6,7,16	-391,699	-392,516
Share of profit from associated companies and jointly controlled entities	13	3,286	5,789
Operating profit before other income and expenses		**286,460**	**283,724**
Other income and expenses	7, APM	-13,167	-44,874
Operating profit		**273,293**	**238,850**

Figures in NOK 1,000	Note	2017	2016
FINANCIAL INCOME AND EXPENSES			
Interest income	11	6,654	7,944
Other financial income	11,22	19,243	10,419
Interest costs	11	-31,475	-70,414
Other financial costs	11,22	-8,965	-184,677
Net financial profit/loss		**-14,543**	**-236,728**
PRE-TAX PROFIT		**258,750**	**2,122**
Tax	12	-70,528	-26,211
Profit for the year		**188,222**	**-24,089**
The profit for the year is allocated to			
Non-controlling interests	1	6,944	10,480
Parent company shareholders		181,278	-34,569
		188,222	**-24,089**
Earnings per share (NOK)			
Earnings per share	20	2.66	-0.67
Diluted earnings per share	20	2.62	-0.67

Statement of other comprehensive income 01.01.-31.12.

Figures in NOK 1,000	Note	2017	2016
Profit for the year		188,222	-24,089
Items that will not be reclassified against the statement of income:			
Estimate deviations, pensions	10	4,439	-1,278
Total items that will not be reclassified against the statement of income, before tax		**4,439**	**-1,278**
Tax on items that will not be reclassified against the statement of income	12	-1,065	320
Total items that will not be reclassified against the statement of income, after tax		**3,374**	**-959**
Items that may be reclassified against the statement of income:			
Translation differences on translation of foreign subsidiaries		73,207	-39,242
Total items that may be reclassified against the statement of income, before tax		**73,207**	**-39,242**
Tax on items that may be reclassified against the statement of income		0	0
Total items that may be reclassified against the statement of income, after tax		**73,207**	**-39,242**
TOTAL OTHER COMPREHENSIVE INCOME		76,581	-40,201
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		264,803	-64,290
The total comprehensive income for the year is allocated as follow			
Non-controlling interests		8,127	7,703
Parent company shareholders		256,676	-71,993
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		264,803	-64,290
Total comprehensive income per share (NOK)			
Earnings per share	20	3.77	-1.40
Diluted earnings per share	20	3.70	-1.40

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2017	2016
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	15	1,042,596	1,010,176
Brands	15	819,702	669,237
Software	15	29,151	30,651
Total intangible assets		**1,891,449**	**1,710,064**
Tangible assets			
Machinery and equipment	14	304,534	326,049
Fixtures and fittings, tools, office equipment etc.	14	19,614	21,454
Assets under construction	14	5,678	2,732
Total tangible assets		**329,826**	**350,235**
Deferred tax assets	**12**	**136,786**	**172,120**
Financial assets			
Investments in associated companies and jointly controlled entities	13	58,670	56,811
Other investments in shares		200	200
Other non-current receivables	17	1,205	1,235
Total financial assets		**60,075**	**58,246**
Total fixed assets		2,418,136	2,290,665

Figures in NOK 1,000	Note	2017	2016
Current assets			
Inventories	18	410,759	378,777
Receivables			
Trade receivables	2	1,432,164	1,344,067
Prepayments to suppliers	17	64,570	62,810
Other receivables	12,17	22,325	19,112
Total receivables		**1,519,059**	**1,425,989**
Bank deposits	2,19	184,415	199,385
Cash and cash equivalents		**184,415**	**199,385**
Total current assets		2,114,233	2,004,151
TOTAL ASSETS		4,532,369	4,294,816

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	20	1,360	1,360
Share premium		770,743	770,743
Total paid-in equity		**772,103**	**772,103**
Retained earnings			
Other equity		878,489	716,582
Total retained earnings		**878,489**	**716,582**
Non-controlling interests	1	18,823	13,905
Total equity		**1,669,415**	**1,502,590**
Liabilities			
Provisions			
Deferred tax liability	12	101,032	92,628
Pension obligations	10	30,552	34,092
Other provisions	23	320	627
Total provisions		**131,904**	**127,347**

Figures in NOK 1,000	Note	2017	2016
Other non-current liabilities			
Debt to financial institutions	2,21	909,218	886,255
Total other non-current liabilities		**909,218**	**886,255**
Current liabilities			
Debt to financial institutions	2,21	90,071	16,498
Liabilities at fair value through profit or loss	2,22	0	24,135
Trade payables		603,884	628,347
Tax payable	12	2,128	0
Unpaid public duties	24	928,005	912,310
Other current liabilities	23,24	197,744	197,334
Total current liabilities		**1,821,832**	**1,778,624**
Total liabilities		**2,862,954**	**2,792,226**
TOTAL EQUITY AND LIABILITIES		**4,532,369**	**4,294,816**

Gjelleråsen, 15 March 2018

Michael Holm Johansen
Chairman of the Board

Stein Erik Hagen

Hanne Refsholt

Eilif Due

Trond Berger

Leena Saarinen

Erik Hagen

Kjell Arne Greni

Ingrid E. Skistad

Ann-Beth Freuchen

Kenneth Hamnes
Group CEO

Statement of cash flows 01.01. -31.12.

Figures in NOK 1,000	Note	2017	2016
CASH FLOWS FROM OPERATIONS			
Pre-tax profit		258,750	2,122
Depreciation and amortisation	14,15	74,281	51,625
Share of profit from associated companies and jointly controlled entities	13	-3,286	-5,789
Dividends received from associated companies and jointly controlled entities	13	0	2,947
Taxes paid	12	-33,221	-46,711
Interest costs during the period		31,475	70,414
Pension costs and other provisions without cash effect	3	591	-3,601
Value changes and other costs without cash effect	3	-4,444	164,974
Profit/loss on sale of fixed assets and intangible fixed assets	3	-30	-1,051
Unrealised agio	3	19,195	-15,964
Change in inventories	3,18	-31,781	9,440
Change in trade receivables	3	-43,939	-340,739
Change in trade payables	3	-45,437	76,890
Change in other current assets and other liabilities	3	-22,256	33,491
Net cash flows from operational activities		**199,898**	**-1,952**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments on acquisition of intangible fixed assets	15	-124,820	-36,429
Payments on purchase of tangible fixed assets	14	-15,894	-11,379
Proceeds from sale of tangible fixed assets	3,14	30	1,060
Payments on acquisition of business	26	-2,752	0
Payment of loans to minority interests		0	-810
Payments on acquisition of other financial investments	3	-454	0
Net cash flow from investment activities		**-143,890**	**-47,558**

Figures in NOK 1,000	Note	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds - incentive programme	22	0	1,000
Payments - incentive programme	22	0	-158,316
Capital increase		0	768,883
Proceeds from non-current interest-bearing debt to financial institutions	2,21	0	802,632
Repayment of non-current interest-bearing debt to financial institutions	2,21	-15,719	-1,081,048
Change in other non-current loans		0	-246
Change in overdraft facility		72,700	0
Interest cost paid during the period	3	-31,454	-83,031
Payments for acquisition of non-controlling interests		-12,913	-146,325
Payments of dividends/Group contributions	1,3	-103,515	-28,260
Net cash flow from financing activities		**-90,901**	**75,289**
Effect of exchange rate fluctuations on cash and cash equivalents		19,923	-16,813
Effect of exchange rate fluctuations on cash and cash equivalents		**19,923**	**-16,813**
Net change in cash and cash equivalents		**-14,970**	**8,966**
Holdings of cash and cash equivalents as at 01.01		199,385	190,419
Holdings of cash and cash equivalents as at 31.12.	19	**184,415**	**199,385**

Statement of changes in equity

Figures in NOK 1,000	Share capital	Share premium	Translation differences	Share-based payment fund	Other retained earnings	Total for owners of the parent company	Non-controlling interests	Total for the Group
Equity as at 31.12.2015	1,000	794	265,253	0	577,757	844,804	31,603	876,407
Profit for the year 2016	0	0	0	0	-34,569	-34,569	10,480	-24,089
Total other comprehensive income 2016	0	0	-36,465	0	-959	-37,424	-2,777	-40,201
Total profit for the year 2016	**0**	**0**	**-36,465**	**0**	**-35,528**	**-71,993**	**7,703**	**-64,290**
Transactions with owners 2016								
Share issue	360	769,949	0	0	0	770,309	0	770,309
Share-based payment	0	0	0	606	0	606	0	606
Payment of dividend	0	0	0	0	0	0	-21,896	-21,896
Changes in non-controlling interests	0	0	0	0	-49,877	-49,877	-8,670	-58,547
Transfer of profit for the year from minority to majority*	0	0	0	0	-5,163	-5,163	5,163	0
Total transactions with owners 2016	**360**	**769,949**	**0**	**606**	**-55,040**	**715,875**	**-25,403**	**690,472**
Equity as at 31.12.2016	**1,360**	**770,743**	**228,788**	**606**	**487,190**	**1,488,687**	**13,903**	**1,502,590**
Profit for the year 2017	0	0	0	0	181,278	181,278	6,944	188,222
Total other comprehensive income 2017	0	0	72,024	0	3,374	75,398	1,183	76,581
Total profit for the year 2017	**0**	**0**	**72,024**	**0**	**184,652**	**256,676**	**8,127**	**264,803**
Transactions with owners 2017								
Share-based payment	0	0	0	7,898	0	7,898	0	7,898
Payment of dividend	0	0	0	0	-99,994	-99,994	-3,521	-103,515
Changes in non-controlling interests	0	0	0	0	-2,675	-2,675	314	-2,361
Total transactions with owners 2017	**0**	**0**	**0**	**7,898**	**-102,669**	**-94,771**	**-3,207**	**-97,978**
Equity as at 31.12.2017	**1,360**	**770,743**	**300,812**	**8,504**	**569,173**	**1,650,592**	**18,823**	**1,669,415**

* At the end of 2016 the Group owned 90.1 per cent of the subsidiary Excellars AS. In addition, put and call options existed which were associated with the non-controlling interests, although the Group was not considered to have control of the shares as of the close of the financial year. These companies were recognised as though they were wholly owned, but with partial presentation of the non-controlling interests. Partial presentation of non-controlling interests means that the non-controlling interests' share of the profit for the year is shown in the statement of income for 2016, but not in the equity statement as at 31.12.2016. The transfer in 2016 related to the non-controlling interests' share of the profit for the year, adjusted for the dividend distributed for the period.

Brief history of the Group

Arcus ASA is registered and domiciled in Norway, and located at Destilleriveien 11 in Gjelleråsen in Nittedal Municipality, just north of Oslo. The consolidated financial statements include the parent company and subsidiaries (together referred to as "Arcus" or the "Group", and individually as a "Group company"), as well as the Group's holdings in associated companies. The Group's principal activity is the import, production, marketing, sale and distribution of wine and spirits.

Historical development

The Group has carried out the following important transactions in recent years:

2017

- In January, the Group acquired the remaining 50 per cent interest in Det Danske Spiritus Kompagni A/S. Det Danske Spiritus Kompagni A/S thereby became a wholly-owned subsidiary in the Group's spirits activities.
- In January, the Group established Vingruppen Finland Oy, as a wholly-owned subsidiary of Vingruppen i Norden AB.
- In February, the Group acquired the remaining 9.9 per cent interest in Excellars AS. Excellars AS thereby became a wholly-owned subsidiary in the Group's wine activities.
- In June, the Group increased its ownership of Valid Wines Sweden AB from 97.0 per cent to 100.0 per cent by the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares. At the same time, the Group sold 16.9 per cent of the shares to the company's general manager, so that after the transaction the Group has an ownership interest of 83.1 per cent in Valid Wines Sweden AB.
- In September, the Group acquired 100 per cent of the shares in the Norwegian company BevCo AS, which as from the same date is part of the Group's spirits activities. Among other things, the company has the distribution rights for Dooley's Toffee in Norway.
- In October, the Group acquired the Vanlig brand, which comprises a vodka and a gin product. The Group took over sales of this product as from the same date, while production was taken over during Q1 2018.
- In December, the Group acquired the Hot n'Sweet brand, which is a vodka shot. The Group took over sales of this product as from 1 January 2018, while production was taken over during Q1 2018.

2016

- In February, the Group increased its ownership of Excellars AS from 51.0 per cent to 90.1 per cent by the subsidiary Vingruppen AS' acquisition of minority shares.
- In February, the Group increased its ownership of Wineagency Sweden AB from 80.0 per cent to 90.0 per cent by the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In July, the Group increased its ownership of Wineworld Sweden AB from 80.0 per cent to 90.0 per cent by the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In August, the Group acquired the Dworek vodka brand.
- In December, the Group increased its ownership of Vingruppen i Norden AB from 99.37 per cent to 100.0 per cent by the subsidiary VinGruppen Sweden Holding AB's acquisition of the remaining minority shares.
- Arcus-Gruppen Holding AS was restructured as a public limited liability company and changed its name to Arcus ASA, before the company's listing on the Oslo Stock Exchange on 1 December.

2015

- In February, acquired the aquavit brand Snälleröds in Sweden.
- In April, acquired the wine activity from Fondberg in Finland. Changed the name of the company to Social Wines Oy.
- In September, acquired 70 per cent of the shares in a recently-founded Norwegian wine company, Heyday Wines AS.
- In Q4, reorganised the ownership of Vingruppen i Norden AB, by selling the shares to a newly-established wholly-owned holding company in Sweden called VinGruppen Sweden Holding AB.
- Discontinued production in Aalborg and moved the production and bottling of the Danish brands (Aalborg Aquavit, Malteserkreutz and Gammel Dansk) to customised facilities at Gjelleråsen.

2014

- Established Vingruppen AS as the new holding structure for the wine business in Norway.

2013

- In January, acquired all the shares in Arcus Denmark A/S from Pernod Ricard, which included the Aalborg Aquavit and Gammel Dansk brands, and all the shares in Arcus Deutschland GmbH, which owns the Malteserkreutz brand.

2012

- Completed the new production and distribution facility and head office at Gjelleråsen, and moved the business there.

2011

- Acquired 28.2 per cent of the shares in Vingruppen i Norden AB, increasing the holding from 62.5 per cent to 90.7 per cent. At the same time, entered into an option agreement for the remaining 9.3 per cent.
- Acquired 51 per cent of the shares in Excellars AS, with an option for the remaining 49 per cent.
- Swapped 34 per cent of the shares in SAS de L'île Madame for 32.6 per cent of the shares in Tiffon SA. Acquired a further 106 shares and increased the holding in Tiffon SA to 34 per cent.

2010

- Implemented an agreement on sale of Gjelleråsen Prosjekt 1 AS.
- Started construction of a new production and distribution facility and head office at Gjelleråsen.

2009

- Acquired the brands Star Gin, Red Port and Dry Anise from Pernod Ricard.
- Acquired 80 per cent of the company Symposium Wines AS.

2008

- Acquired Gjelleråsen Prosjekt 1 AS, which included the site of the new operating location at Gjelleråsen in Nittedal Municipality north of Oslo.

Accounting policies

The consolidated financial statements for 2017, including comparative information, have been prepared in accordance with IFRS applicable as at 31 December 2017, and as described in the note on the accounting policies. Applicable IFRS have been applied retrospectively.

The annual financial statements were adopted by the Board of Directors on 15 March 2018. The Group's head office is located at Gjelleråsen in Nittedal Municipality and the core activities are the production, sale and distribution of alcoholic beverages. The Group's domestic market is the Nordic region, but the Group also has sales to other countries, mainly Germany and the USA.

Arcus ASA is listed on the Oslo Stock Exchange. The price on 31.12.2017 was NOK 46.50 per share, compared to NOK 44.50 per share at the end of 2016.

NEW ACCOUNTING STANDARDS

No changes which have significantly affected the Group's financial statements have been made to the framework conditions from IFRS in the current year. The most important changes to the accounting standards that will affect the Group in the future are presented below.

Adopted IFRS and IFRIC with future effective dates:

The standards and interpretations adopted up to the date of presentation of the consolidated financial statements, but where the effective date is in the future, are shown below. The Group's intention is to implement the relevant changes on the effective date, on the assumption that the EU approves the changes before the presentation of the consolidated financial statements.

CHANGES RELEVANT TO THE ARCUS GROUP:

IFRS 9 Financial instruments

In July 2014, the IASB published the final subproject of IFRS 9 and the standard has now been finalised. IFRS 9 includes changes related to classification and measurement, hedge accounting and impairment IFRS 9 will replace IAS 39 Financial Instruments – Recognition and Measurement. The parts of IAS 39 that were not changed as part of this project were transferred and included in IFRS 9.

The standard will be implemented retrospectively, with the exception of hedge accounting, although the preparation of comparative figures is not a requirement. The rules for hedge accounting will mainly be implemented prospectively, with a few exceptions. The Group has no plans for the early implementation of the standard. The new standard will apply with effect from reporting years beginning on 1 January 2018 or later.

The new standard is not expected to have any material impact on the Group's financial reporting, but may affect the Group's classification and measurement of financial assets and liabilities.

IFRS 15 Revenue recognition

IASB has released a new standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations for revenue recognition. The core principle of IFRS 15 is that revenue is recognised in order to reflect the transfer of agreed goods or services to customers, and at an amount that reflects the consideration the company expects to be entitled to in exchange for these goods or services

The standard applies, with a few exceptions, to all revenue-generating contracts with customers and includes a model for recognition and measurement of the sale of individual non-financial assets. IFRS 15 will be implemented using either a fully retrospective or a modified method. The new standard will apply with effect from reporting years beginning on 1 January 2018 or later.

In 2017, the Group undertook an analysis of its income recognition principles and assessed the changes that are necessary due to the implementation of IFRS 15 as from 1 January 2018. The key aspects of these assessments were the time of revenue recognition of our products, classification of discounts, annual bonuses, market support and outbound shipping, and an agent/principal assessment concerning net or gross recognition of revenue.

The analysis did not reveal significant changes from existing principles, apart from the book entry of outbound shipping. Up to and including 2017, the Group has booked outbound shipping as a reduction of revenue. Based on an assessment of the agent/principal principle, the Group assesses that as from 1 January 2018, the costs of outbound shipping must be presented on a gross basis, as a cost under other indirect costs. The Group plans to include all effects of the new standard at the time of its first application in 2018, and this will entail changes to the statement of income, and to some extent also to the Revenue note and Segment note. This will increase the Group's reported revenue by an amount of around NOK 30-50 million. The change will not affect the Group's reported EBITDA.

IFRS 16 Leases

IFRS 16 Leases replaces the existing IFRS standard for leases, IAS 17 Leases. IFRS 16 sets out principles for recognition, measurement, presentation and disclosure of leasing agreements for both parties to a leasing agreement, i.e., the customer (lessee) and provider (lessor). The new standard requires the lessee to recognise the assets and liabilities of most leasing agreements, which is a significant change from current principles. The standard comes into force on 1 January 2019, but has not yet been approved by the EU. The new standard will apply with effect from reporting years beginning on 1 January 2019 or later.

New IFRS 16 concerning leases will entail a significant change to the accounting policy related to leasing costs. As from financial years commencing in 2019, all significant leasing agreements must be capitalised. This will give an intangible right on the asset side and an equivalent liability on the debt side.

On the implementation of IFRS 16, the Group has two options: the full retrospective method or the modified retrospective method. The difference between the two methods is that the full retrospective method calculates the effects of the new standard related to the share of the lease contracts which has already accrued as of the date of implementation. This means that if the lease contract was signed on 1.1.2016 and the standard was implemented on 1.1.2019, the effects from the first three years must be booked to equity as from 1 January in the comparison year. If the Group chooses the modified retrospective method, the effects are only calculated as from the implementation date, and there is no adjustment in relation to equity. The full retrospective method has a lower effect on the statement of financial position and equivalently lower future depreciation than the modified retrospective method, but has a negative equity effect as of the implementation date.

At the end of 2017, the Group made a calculation based on the Group's existing leasing agreements. The estimate shows that if IFRS 16 had been implemented as of 31.12.2017, the Group would have had an effect on the statement of financial position of between NOK 1,050 and 1,150 million, depending on the method chosen. The negative equity effect on choosing the full retrospective method would have been NOK 108 million. Based on the estimate, the future effect on the result would have shown lower operating costs of NOK 91 million, which would give equivalently higher EBITDA. Depreciation and amortisation would have been NOK 58-65 million higher, which would have given net EBIT that was NOK 25-32 million higher in the first financial year after implementation than without IFRS 16 implementation. Calculated interest costs of NOK 44 million would have led to a pre-tax profit NOK 12-19 million lower than without IFRS 16 implementation, in the first year after implementation.

On the introduction of IFRS 16 Leases as from 2019, the Group's reported net interest-bearing debt and adjusted EBITDA will change significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to today's model, independently of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms will not be affected by the introduction of IFRS 16.

Other changes

Other changes resulting from new standards that have yet to come into effect will not influence or have any significant effect on the consolidated financial statements.

ACCOUNTING POLICIES

Consolidation principles

The consolidated financial statements comprise Arcus ASA and subsidiaries in which Arcus ASA has control, and present the overall financial results, the overall financial position, and the overall cash flows, as one financial entity. Control takes place when the Group is entitled to variable returns from an investment object, and can also influence relevant activities which affect the returns on the investment object. Normally this will be the company in which Arcus ASA, either directly, or indirectly via subsidiaries, owns more than 50 per cent of the shares with voting rights. In the consolidated financial statements, this Group is referred to as Arcus or the Arcus Group.

See Note 1 for an overview of all the companies included in the consolidation.

In the consolidated financial statements all intra-Group receivables and internal transactions between companies within the Group have been eliminated. The cost price of shares in subsidiaries is eliminated against equity at the time of acquisition. Accounting values including goodwill and excess values associated with foreign subsidiaries are translated from the functional currency to NOK according to the exchange rate at the close of the financial year.

Goodwill is included in the consolidated financial statements as an intangible asset.

Any changes in the Group's ownership of a subsidiary, without any loss of control, is recognised as an equity transaction. If the Group loses control of a subsidiary, underlying assets (including goodwill), debt, minority interests and other equity components are deducted, while gains and losses are recognised in the income statement. Any remaining investment is recognised at fair value.

Non-controlling interests

Non-controlling interests' share of profit after tax is shown on a separate line after the Group's profit for the year. Non-controlling interests' share of equity is shown on a separate line as part of the Group's equity.

In instances where there are put and/or call options associated with the non-controlling interests, and where the Group has determined that it does not have an existing interest in the shares to which the options apply, the subsidiary is presented as if it were wholly owned, but with partial presentation of non-controlling interests. Partial presentation of non-controlling interests means that for each reporting period the non-controlling interests will receive their part of the profit for the year, which is shown under the profit allocation in the consolidated statement of income and in the statement of changes in equity. At the end of each period, the non-controlling minority interests' share of profit, adjusted for the distribution of dividend for the period to the non-controlling interests, will be transferred as an equity transaction from the non-controlling interests' share of equity to the majority's equity. The option liabilities will be recognised at the present value of the redemption amount and presented in the statement of financial position as an obligation at fair value via profit or loss.

Currency

All transactions in foreign currency are translated to functional currency as of the date of the transaction. Monetary items in foreign currency are translated as of the close of the financial year to functional currency using the exchange rate as of the close of the financial year.

The Group's presentation currency is NOK, which is also the parent company's functional currency.

The functional currency of subsidiaries is the currency in which the subsidiary reports its financial statements. On consolidation of subsidiaries that have a functional currency other than NOK, items of income and expenses are converted to the Group's presentation currency in accordance with average conversion rates. This means that at the end of each period, items of income and expenses are translated at the average exchange rate to date in the year. For the statement of financial position, including excess value and goodwill, the closing exchange rate as of the close of the financial year is

As of 31.12.2017, the following exchange rates have been used when translating income and financial position figures from subsidiaries with functional currencies other than NOK:

Exchange rates		2017	2016
EUR average rate	Income statement items	9.3326	9.2980
EUR closing rate	Financial position items	9.8510	9.0865
SEK average rate	Income statement items	0.9684	0.9830
SEK closing rate	Financial position items	0.9992	0.9484
DKK average rate	Income statement items	1.2546	1.2488
DKK closing rate	Financial position items	1.3231	1.2223

used. Currency differences arising on consolidation of entities with another functional currency are attributed to equity and presented as other comprehensive income in the consolidated statement of other comprehensive income. On disposal of subsidiaries, accumulated translation differences associated with the subsidiary are charged to the statement of income.

Investments in associated companies and jointly controlled entities
Associated companies are companies in which the Group has significant influence, normally between a 20 and a 50 per cent holding. The equity method is used for associated companies in the consolidated financial statements. Excess value analysis has been carried out with regard to associated companies. The share of profit is based on profit after tax in the company in which investment has been made, with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired holding of capitalised equity. The share of profit is shown in the statement of income on a separate line before operating profit and the investment is shown as a line under financial fixed assets.

Jointly controlled companies are investments in which the Group has an agreement on joint control over an entity together with one or more other parties, when none has decisive influence and all strategic, financial and operational decisions concerning the entity require unanimity between the parties. The share of profit is based on profit after tax in the company in which investment has been made with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired holding of capitalised equity. The share of profit is shown in the statement of income on a separate line before operating profit and the investment is shown as a line under financial fixed assets.

Business mergers
Business mergers in the Group are treated according to the acquisition method and present the Group as a single entity. On acquisition, the cost price of the acquired business is allocated so that the consolidated opening statement of financial position reflects the estimated fair value of the acquired assets and liabilities. To determine fair value on acquisition, alternative methods of determining fair value must be used for assets for which there is no active market. Added value in excess of what is attributable to identifiable assets and liabilities is reported as goodwill. If the fair value of the equity in the acquired company exceeds the consideration, a reassessment is made of the valuation of observable assets and liabilities. If the reassessment reveals no discrepancies, the difference is recognised as income as at the acquisition date. The allocation of the cost price of the business merger must be changed if new information is revealed about the fair value applicable at the time of acquisition and up until the final excess value analysis. This must take place within 12 months of the acquisition date.

With each business acquisition, the minority interest will be measured at fair value, and minorities' share of goodwill is capitalised in the consolidated statement of financial position.

On stepwise acquisition of subsidiaries, the basis is the value of assets and liabilities on the date of the establishment of the Group. Subsequent acquisition of ownership of existing subsidiaries in addition to the majority interest will not affect the assessment of assets or liabilities.

Revenue recognition principles
Revenues associated with the sale of goods and services is recognised when the Group has transferred risk and rights to the purchaser. This is normally on delivery of the goods and services. Other revenues is recognised when it is probable that transactions will involve future financial gains that will accrue to the company and the size of the sum can be estimated reliably. Variable discounts and bonuses are allocated and accrued in the period in which they are expected to occur.

Sales revenues are presented net after deduction of discounts, VAT, outbound shipping costs, alcohol and packaging tax.

Information on revenue recognition in the Distribution segment
All sales that are distributed and sold through Vectura AS are invoiced by the company, including special duties, cost of goods, handling charges, etc. Sales revenues for the services are presented net after deductions for special duties and associated goods and handling charges, etc. Vectura AS' sales revenues are presented net based on an assessment of the fact that the company's revenues are related to the delivery of services, etc., and that the product flow risk is the suppliers' responsibility.

Other income and expenses
To provide more information in the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. See also the detailed specification of what these items include in the notes relating to the individual line items. For more information on other income and expenses, see the Alternative Performance Measurement (APM) appendix.

Inventories
Inventories are valued at the lower of acquisition cost/production cost and net selling value, where net selling value is calculated as the selling price in a transaction with market participants on the measurement date less selling expenses. Purchased inventories are valued at acquisition cost according to the principle of weighted average with deduction for obsolescence, while inventories produced in-house are valued at production cost according to the principle of full costing with deduction for obsolescence.

Receivables
Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Provision for losses is made on the basis of an individual assessment of each receivable based on identified indicators of impairment.

Sold accounts receivable that are included in the factoring agreement are presented as reduced accounts receivable in the statement of financial position.

Prepayments to suppliers
Prepayments to suppliers apply to financing the purchase of inventory for individual partners. Prepayments are shown at nominal value after deduction for provisions for expected losses. Provisions for losses are made on the basis of identified indicators of impairment.

Cash and cash equivalents
Cash and cash equivalents include cash, bank deposits, balances in the Group cash pool system and other means of payment with a due date less than three months from the acquisition date.

The Group's cash pool system is connected with cash and bank overdrafts within the same cash pool system and is presented net.

The Group cash pool system is managed by the parent company, Arcus ASA.

Tangible assets
Tangible fixed assets are capitalised at cost price less accumulated depreciation and accumulated loss on non-transitory impairment. Depreciation is

calculated and taken to expenses from the date the fixed asset is taken into use, and is calculated on the basis of expected useful life, taking account of estimated residual value.

Different rates of depreciation are used for a fixed asset's components if these have different economic lives. Assets under construction are not depreciated. Depreciation is taken to expenses only when the asset is ready for use. Profit and loss on sales of fixed assets are set as the difference between the selling price and the book value at the time of sale. Profits on sales of fixed assets are recognised as operating income and losses as operating expenses. If there are indications of impairment, the amount recoverable is estimated in order to assess any loss through the impairment. If the book value exceeds the amount recoverable, the asset is written down to recoverable value, while the remaining depreciation period is maintained (breakpoint solution). Depreciation methods, residual values and estimated life are continuously assessed.

Intangible assets

Intangible assets comprise brands, software and goodwill. Intangible assets are capitalised at cost price with deduction for accumulated depreciation and accumulated write-downs in the event of non-transitory impairment.

Intangible assets with limited useful lives are depreciated by the straight-line method over the expected useful life.

The capitalised value of goodwill, brands and other intangible assets with indeterminate lifetime is tested for impairment at least once a year, or more often if there are indications that the value of the asset has decreased. This requires estimates of the amount recoverable by cash-generating units to which goodwill and other intangible assets are attributed

To determine the recoverable amount, the Group estimates expected future pre-tax cash flows from the cash-generating unit and applies suitable discount rates in order to calculate the present value of future cash flows. Cash flows for brands are calculated based on a market-based "relief from royalty" method before tax. See Note 15 for a more detailed description of this model.

Expectations regarding future cash flows will vary over time. Changes in the market conditions and expected cash flows may cause losses in the event of impairment in the future. The most important assumptions with significance for the present value of the cash flows associated with the investments are future profits and growth, as well as the discount rate used.

Pensions

Net pension costs for defined benefit plans comprise the period's service cost, including future growth in salaries and interest rates on the estimated obligation, less expected returns on the pension assets. Prepaid pension is shown as a non-current asset in the statement of financial position where it is probable that the over-financing can be used or repaid. Correspondingly, a non-current liability is shown in the accounts when the pension obligation is greater than the pension assets. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations), are recognised against equity and are presented in the statement of other comprehensive income.

The Group also has defined contribution pension plans,which are schemes whereby the company pays contributions on an ongoing basis to the employees' individual pension plans. Ongoing premium invoices of this kind are expensed as salaries and other personnel costs.

Restructuring

Provisions for restructuring are recognised as expenses when the programme has been adopted and announced and the costs are identifiable and quantifiable. Provisions linked to restructuring are included as other provisions for liabilities calculated at present value. Agreements securing future work input are recognised as expenses over the period in which the work input is delivered.

Taxes

The tax expense comprises both tax payable and the change in deferred tax. Tax payable is based on taxable income for the year. Taxable income is different from the pre-tax profit as presented in the statement of income because of income and expenditure items that are not taxable/deductible (permanent differences) and the change in differences in taxable and accounting accruals (temporary differences). Tax payable is calculated based on tax rates that are adopted at the end of the period.

Deferred tax is capitalised on the basis of the temporary differences and any deficit to be carried forward existing at the end of the financial year and that involves increased or reduced future tax payable, when these differences are reversed in future periods. Temporary differences are differences between accounting and taxable results arising during a period and are reversed during a later period. Deferred tax is calculated on the basis of nominal tax rates (rates adopted as of the close of the financial year in the individual country) multiplied by temporary differences and the deficit to be carried forward. Deferred tax assets are capitalised when the probability exists that future taxable income will enable utilisation of the asset.

Share-based payment

The Group has two share-based incentive schemes for senior executives, and a general share savings programme for all employees.

The costs related to the two share-based incentive schemes for senior executives are accrued during the vesting period, which is the period between the allocation date and the date of receipt. The costs which are accrued are the calculated value of the matching shares or options as of the allocation date, and this value is not adjusted during the vesting period. These costs are booked as personnel costs, set off to Group equity.

The related employer tax is in principle accrued during the same period. The costs of the employer tax in each period are calculated on the basis of the fair value of the matching shares or options. The costs for the period comprise the change in provisions, and are booked as personnel costs, set off as debt in the statement of financial position.

The costs related to this programme are recognised in accordance with IFRS 2.

The general share savings programme for all employees is based on the Group selling shares to the employees below market value. The costs related to this programme are recognised by booking the difference between the market value of the shares and the purchase price for the employees as personnel costs.

Classification principles

Other assets included in the operating cycle or falling due within 12 months are classified as current assets. Remaining assets are classified as fixed assets.

Liabilities included in the operating cycle or falling due within 12 months, where there is no unconditional right to defer settlement, are classified as current liabilities. Remaining liabilities are classified as non-current.

Proposed dividend/Group contributions are capitalised in the statement of financial position as a liability when the Group has an irrevocable obligation to make dividend payments/Group contributions, normally after adoption by the Annual General Meeting.

Measurement and classification of financial instruments
The Group classifies financial instruments in the following categories: financial instruments at fair value through profit or loss, loans and receivables, financial assets available for sale and financial liabilities. The classification depends on the purpose of the asset or liability. Management classifies financial assets and liabilities on acquisition.

Financial instruments at fair value through profit or loss
Financial instruments are recognised in the statement of financial position when the Group has become party to the instrument's contractual provisions, and deducted when the contractual rights or obligations are fulfilled or cancelled, or have expired or been transferred. Financial instruments are classified as current assets if the expected settlement date is within 12 months of the close of the financial year, and as fixed assets if the settlement date is later than 12 months after the close of the financial year

Financial instruments at fair value through profit or loss are either financial instruments held for trading purposes or financial instruments earmarked at fair value. A financial instrument is classified in the category "held for trading" if it is primarily acquired with a view to producing profit from short-term price fluctuations. Derivatives are classified as held for trading unless they form part of a hedge. Assets and liabilities in this category are classified as current assets or current debt if it is expected that they will be settled within 12 months; otherwise they are classified as financial assets or non-current debt.

Loans and receivables
Loans and receivables are financial assets that are not derivatives, that have fixed or determinable payments and that are not traded in an active market. They are classified as current assets unless they fall due more than 12 months after the close of the financial year. Loans and receivables comprise accounts receivable and other receivables, as well as cash and cash equivalents in the statement of financial position.

Loans and receivables are measured at amortised cost, and value changes resulting from interest rate changes are not recognised.

Financial assets available for sale
Financial assets available for sale are financial assets that are not derivatives and that have been placed in this category, or that do not belong to any other category. They are classified as fixed assets provided that the investment does not fall due or the management does not intend to sell the investment within 12 months from the close of the financial year.

Other financial liabilities
Financial liabilities not falling into the category of "financial instruments at fair value through profit or loss" are classified as other financial liabilities. For measurement of financial liabilities at fair value, see measurement of financial instruments in Note 2.

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Financial liabilities are recognised at amortised cost based on an effective interest rate method. Transaction costs (arrangement charges) are capitalised in the statement of financial position as part of the book value of the loan, and depreciated over the period of the loan (amortised cost).

Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year.

Categorisation of financial assets and debt
The Group's measurement of financial assets, debt and other financial instruments at fair value can be divided into three categories:
Level 1: Listed (unadjusted) prices in active markets.
Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.
Level 3: Techniques for calculation of fair value based on other than observable market data.

Leases
Leases where a significant part of the risk and return associated with ownership continues to lie with the lessor are classified as operational leases. Lease payments from operational leases (with deduction for any financial incentives from the lessor) are charged as expenses using the straight-line method over the period of the lease.

Leases with regard to property, plant and equipment in which the Group principally holds all risks and rewards are classified as financial leasing. Financial leasing is capitalised at the start of the lease period at the lower of fair value of the leased fixed assets and the present value of the total minimum lease amount. Each lease payment is allocated between a repayment element and an interest element. The lease cost is charged to profit or loss as financial expenses. The lease liability, less the cost of interest, is classified as other current liabilities and other non-current liabilities. Property, plant and equipment acquired through a financial lease agreement is depreciated over the expected life or the period of the lease if this is shorter.

Statement of cash flows
The indirect method is used in the preparation of the statement of cash flows. Cash and cash equivalents in the statement of financial position are defined as holdings of cash and cash equivalents in the statement of cash flows.

Segment information
Operating segments are reported in the same way as for internal reporting to Group management. The Group's business areas comprise Spirits, Wine and Distribution and decisions within each business area are taken by the Group CEO.

The Group's activities consist of sales and marketing of Spirits, sales and marketing of Wine, and distribution of spirits and wine.

The Spirits business area comprises the following companies: Arcus Norway AS with subsidiaries, Det Danske Spiritus Kompagni A/S, Arcus Denmark A/S, Arcus Sweden AB, Arcus Finland Oy and Arcus Deutschland GmbH. Supply Chain is also included as a production facility in the Spirits business area.

The Wine business area comprises the following companies: Vingruppen Sweden Holding AB and subsidiaries, and Vingruppen AS and subsidiaries.

The Distribution business area comprises the Vectura AS company.

In addition, there are the remaining Group income and expenses, as well as financing costs, that comprise Arcus-Gruppen AS and Arcus ASA.

The Group presents no segment assets or liabilities, as this is not done in the Group's internal reporting

For further information about the Group's operating segments, see Note 5.

Related parties
The Group's related parties, in addition to subsidiaries, associated companies and jointly

Areas in which estimates have major significance will be:
Figures in NOK 1,000

Accounting item	Note	Assumptions	Book value 2017	Book value 2016
Goodwill	15	Present value of future cash flows	1,042,596	1,010,176
Brands	15	Present value of future cash flows	819,702	669,237
Other intangible assets	15	Recoverable amounts and correct useful life	29,151	30,651
Tangible assets	14	Recoverable amounts and correct useful life	329,826	350,235
Deferred tax assets	12	Assessment of the ability to exploit tax assets in the future	136,790	172,120
Pension obligations	10	Economic and demographic assumptions	30,552	34,092
Liabilities at fair value through profit or loss	22	Present value of future cash flows	0	24,135
Provisions	23	Correct basis for estimate calculations	12,478	12,903

controlled companies, are defined as the owners, all members of the Board of Directors and Group Management, and companies in which any of these parties either have controlling interests, Board appointments, or are senior employees.

All transactions between Group companies and related parties are made on market terms.

Important accounting estimates and discretionary assessments
Preparation of the annual financial statements requires management to make estimates and assumptions that affect the value of assets, liabilities and conditional liabilities in the statement of financial position, and income and expenses for the financial year.

Future events and changes in the regulatory framework may mean that estimates and assumptions must be changed, while new opinions and interpretations of standards may mean that the choice of principles and presentation will be changed. Estimates and underlying assumptions are examined and evaluated continuously, and changes in accounting estimates are recognised in the period in which the estimates are changed.

Present value estimates of future cash flows are affected by correct assumptions and estimates of future cash flows and estimates of return requirements. Return requirements are determined using the capital asset pricing model (CAPM) and assumptions in using the CAPM are: risk-free interest; market risk premium; and beta.

The areas with greatest risk of substantial changes are capitalised goodwill, brands, tax assets and liabilities at fair value through profit/loss, on the basis that the capitalised sums are substantial, and that there may be considerable discretion. The estimates are based on assumptions concerning future cash flows that are discounted at a selected discount rate.

Estimates and assumptions are described in the various notes.

Notes

NOTE 1 COMPANIES IN THE GROUP

The consolidated financial statements for 2017 cover the following subsidiaries and associated companies:

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Company name				
Arcus ASA (parent company)	Nittedal	NOK	1,360	
Subsidiaries				
Arcus-Gruppen AS	Nittedal	NOK	276,552	100%
Vectura AS	Nittedal	NOK	14,014	100%
Shares owned by Arcus-Gruppen AS				
Arcus Norway AS	Nittedal	NOK	62,100	100%
Arcus Denmark AS	Copenhagen	DKK	10,324	100%
Det Danske Spiritus Kompagni A/S*	Copenhagen	DKK	6,500	100%
Vingruppen AS	Nittedal	NOK	60	100%
VinGruppen Sweden Holding AB	Stockholm	SEK	50	100%
Arcus Deutschland GmbH**	Bremen	EUR	500	100%
Shares owned by Arcus Norway AS				
Arcus Sweden AB	Stockholm	SEK	100	100%
Arcus Finland OY	Helsinki	EUR	311	100%
BevCo AS	Nittedal	NOK	600	100%
De Lysholmske Brenneri- og Destillasjonsfabrikker ANS	Nittedal	NOK	0	100%
Siemers & Cos Destillasjon ANS	Nittedal	NOK	0	100%
Løiten Brænderis Destillation ANS	Nittedal	NOK	0	100%
Oplandske Spritfabrik ANS	Nittedal	NOK	0	100%
Shares owned by VinGruppen Sweden Holding AB				
Vingruppen i Norden AB	Stockholm	SEK	4,192	100%

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Shares owned by Vingruppen AS				
Arcus Wine Brands AS	Nittedal	NOK	100	100%
Vinordia AS	Nittedal	NOK	968	100%
Symposium Wines AS	Nittedal	NOK	500	80%
Vinuniq AS	Nittedal	NOK	100	100%
Excellars AS	Nittedal	NOK	181	100%
Heyday Wines AS	Nittedal	NOK	100	70%
Shares owned by Symposium Wines AS				
Hedoni Wines AS	Nittedal	NOK	30	80%
Shares owned by Vingruppen i Norden AB				
Vinunic AB	Stockholm	SEK	145	100%
Wineworld Sweden AB	Stockholm	SEK	500	90%
The WineAgency Sweden AB	Stockholm	SEK	100	90%
Valid Wines Sweden AB	Stockholm	SEK	1,100	83%
Social Wines OY	Helsinki	EUR	8	94%
Vinum Import Oy	Åbo	EUR	3	88%
Vingruppen Oy	Helsinki	EUR	3	100%
Shares owned by Wineworld Sweden AB				
Wineworld Finland Oy	Helsinki	EUR	220	76%
Quaffable Wines Sweden AB	Stockholm	SEK	100	72%
Shares owned by Vinunic AB				
Vingaraget AB	Stockholm	SEK	50	100%
Shares owned by The WineAgency Sweden AB and WineWorld Sweden AB				
Your Wineclub Sweden AB	Stockholm	SEK	50	90%
Shares owned by Social Wines OY				
Vinunic Oy	Helsinki	EUR	3	94%

* Det Danske Spiritus Kompagni A/S was booked as a jointly-controlled company up to 1.1.2017, and consolidated as a wholly-owned subsidiary as from the same date.

** Arcus Deutschland GmbH has had a financial year from 1 July to 30 June. As from 1.1.2018, the company's financial year follows the calendar year. Impacts on earnings from the company in the consolidated financial statements are based on an estimated annual result for the calendar year, which is the Group's financial year.

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Associated company				
Tiffon SA	Jarnac	EUR	1,131	34.75%

Profit, dividends and equity attributable to non-controlling interests

Figures in NOK 1,000	Profits attributable to non-controlling interests in 2017	Accumulated non-controlling interests 31.12.2017*	Dividend distributed to non-controlling interests in 2017
Symposium Wines AS	1,089	2,290	-1,337
Heyday Wines AS	213	459	0
Wineworld Sweden AB	3,161	7,583	-693
The WineAgency Sweden AB	1,454	4,777	-1,098
Social Wines OY	150	1,357	0
Vinum Import Oy	501	1,280	-335
Other companies with minority interests	376	1,077	-58
Total	**6,944**	**18,823**	**-3,521**

Figures in NOK 1,000	Profits attributable to non-controlling Interests in 2016	Accumulated non-controlling interests 31.12.2016*	Dividend distributed to non-controlling interests in 2016
Symposium Wines AS	1,382	1,975	-1,560
Excellars AS*	772	0	-4,900
Vingruppen i Norden AB	0	0	-375
Wineworld Sweden AB	6,148	4,766	-12,919
The WineAgency Sweden AB	1,342	4,169	-1,607
Social Wines OY	140	1,111	0
Vinum Import Oy	396	933	-359
Other companies with minority interests	300	951	-176
Total	**10,480**	**13,905**	**-21,896**

* At the end of 2016 the Group owned 90.1 per cent of the subsidiary Excellars AS. In addition, put and call options existed which were associated with the non-controlling interests, although the Group was not considered to have control of the shares as of the date of the statement of financial position. These companies were booked as though they were wholly owned, but with partial presentation of the non-controlling interests. Partial presentation of non-controlling interests means that the non-controlling interests' share of the profit for 2016 is shown in the statement of income, but not in the equity statement.

Key figures for companies with significant non-controlling interests in the Group

2017

Figures in NOK 1,000	Symposium Wines AS	Heyday Wines AS	Wineworld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenues	103,301	17,799	231,364	196,074	124,805	53,147
Other operating revenues	0	0	-4,994	-3,130	190	-143
Operating expenses excluding depreciation	-96,413	-16,735	-185,768	-174,269	-120,314	-47,731
Depreciation	0	0	-9	-19	-1,483	0
Operating profit	**6,888**	**1,064**	**40,592**	**18,656**	**3,198**	**5,273**
Net financial profit	319	-118	0	91	-53	-12
Tax	-1,760	-237	-8,981	-4,203	-694	-1,054
Profit for the year	**5,447**	**709**	**31,611**	**14,544**	**2,451**	**4,207**
Fixed assets	158	7	2,950	475	1,079	440
Current assets	36,139	8,100	129,095	97,556	58,472	32,636
Total assets	**36,297**	**8,107**	**132,045**	**98,031**	**59,551**	**33,075**
Equity	3,722	1,530	75,838	47,763	20,701	10,206
Liabilities	32,575	6,577	56,207	50,269	38,850	22,870
Equity and liabilities	**36,297**	**8,107**	**132,045**	**98,031**	**59,551**	**33,075**

2016

Figures in NOK 1,000	Symposium Wines AS	Excellars AS	Wineworld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenues	95,568	87,612	277,856	191,997	129,352	46,075
Other operating revenues	0	0	2,901	4,582	6,298	1,054
Operating expenses excluding depreciation	-86,981	-77,028	-230,422	-179,430	-130,932	-42,974
Depreciation	0	-440	-29	-13	-1,497	0
Operating profit	**8,587**	**10,144**	**50,306**	**17,136**	**3,221**	**4,155**
Net financial profit	-266	332	-6	157	-73	-1
Tax	-2,120	-2,679	-11,743	-3,870	-818	-828
Profit for the year	**6,201**	**7,797**	**38,557**	**13,424**	**2,330**	**3,326**
Fixed assets	107	2,973	2,905	386	2,628	418
Current assets	35,608	45,098	122,956	84,281	65,546	26,933
Total assets	**35,715**	**48,071**	**125,861**	**84,667**	**68,174**	**27,351**
Equity	2,863	3,614	50,256	41,522	17,792	7,834
Liabilities	32,852	44,457	75,605	43,145	50,382	19,517
Equity and liabilities	**35,715**	**48,071**	**125,861**	**84,667**	**68,174**	**27,351**

NOTE 2 MANAGEMENT OF FINANCIAL RISK

Financial risk

The Group has a Board-adopted financial policy in which strategy and guidelines for financial risk management are defined. Responsibility for the execution of the adopted financial policy lies with Arcus ASA, but it is implemented in cooperation with the individual business areas. The Arcus Group's principal source of income is the core business, and the Group's main strategy with regard to risk is not to speculate, but to limit the financial risk that the core business creates.

The most important financial risks to which the Group is exposed are associated with credit risk, interest rate risk, liquidity risk and foreign currency risk.

For hedging purposes associated with interest rate and currency risk, the Group to a certain degree uses financial derivatives. The Group does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes. The accounting treatment of financial derivatives is described under Accounting Policies.

Credit risk

Credit risk must be assessed before establishing a customer relationship by examining financial statements and other relevant and available information. Credit periods and credit limits must then be determined. Once a customer relationship is established, credit risk and credit limits are continuously assessed in relation to the client's financial performance and payment history.

Outstanding amounts are continuously monitored in cooperation between the finance department and the marketing departments of the individual businesses.

A significant share of the Group's revenues is associated with the state monopolies in the Nordic region, where there is not considered to be any credit risk. The Group's credit risk is otherwise spread over a large number of small customers within the HORECA market, as well as a small number of distributors outside the home markets.

At the end of 2017 the Group had no significant factoring agreements.

The Group's maximum credit risk is equivalent to the book value of financial assets. See also the table to this Note which categorises financial assets.

Overview of bad debts and age analysis of accounts receivable

Figures in NOK 1,000	31.12.17	31.12.16
Nominal accounts receivable	1,432,873	1,345,198

The provision for bad debt on accounts receivable as at 31.12.2017 was TNOK 709 (2016: 1,131). Losses on accounts receivable are classified as other operating expenses in the statement of income.

The change in provision for losses is as follows:

Figures in NOK 1,000	2017	2016
Opening Balance	-1,131	-1,672
Provision for losses for the year	-212	-334
Confirmed losses for the year	424	181
Received on previously written-off receivables during the period	0	-13
Reversal of previous provisions	238	677
Translation differences	-28	30
Closing Balance	-709	-1,131

As at 31 December, the Group had the following accounts receivable fallen due but not paid

Figures in NOK 1,000	Total	Not due	Due 0-60 days	Due 61-365 days	Due date after more than 1 year
31.12.2017[1]	1,432,873	1,274,624	158,242	7	0
31.12.2016[1]	1,345,198	1,245,438	99,760	0	0

1. As at 31.12.2017, the Group had significant accounts receivable that had fallen due. Of this amount, NOK 127 million is related to accounts receivable from Vinmonopolet related to receivables which fell due during the Christmas period on 30 and 31 December 2017, and these were paid on the first banking day in 2018, i.e. 2 January 2018. In the same way, NOK 76 million was items receivable from Vinmonopolet at the end of 2016.

Interest rate risk

The Group is exposed to interest rate risk via financing activities (debt financing and financial leasing liabilities) and investments (bank deposits). At the end of 2017, the Group's non-current liabilities were associated with credit facilities at SEB and financial leasing at Nordea Finans. Group policy is to hedge up to 50 per cent of the base interest rate on non-current loans. The Group assesses the policy on an ongoing basis, and as at 31.12.2017 all interest rates were variable. The margin on credit facilities at SEB is related to the ratio of net interest-bearing debt in relation to EBITDA, while the margin at Nordea Finance is fixed.

Figures in NOK 1,000	Curr-ency	Interest-rate profile	Due date	2017	2016
Current interest-bearing debt					
Drawing on the Group's overdraft facility	NOK	Variable	2018	72,700	0
Liabilities related to financial leasing	NOK	Variable	2018	17,371	16,498
Non-current interest-bearing debt					
Mortgage loans to financial institutions	SEK	Variable	2021	749,400	711,300
Liabilities related to financial leasing	NOK	Variable	2018	166,395	182,987

Sensitivity analysis, interest 2017

Figures in NOK 1,000	Increase/reduction in basis points	Effect on pre-tax profit
Loans in NOK	50	-4,666
Loans in NOK	-50	4,666

Liquidity risk

Liquidity risk is the risk that the Group will not be in a position to service its financial liabilities as they fall due. The Arcus Group's capital management is described in a separate section of this note.

The Group's activities are subject to seasonal fluctuations, and alcohol sales normally increase in periods with national celebrations and public holidays, especially at Easter and Christmas. The fourth quarter is normally the best quarter for the Group, which is also reflected in cash flows.

Cash flows from operations, which are, for example, affected by changes in working capital, are managed operationally by the business areas. Via reporting, the finance department monitors liquidity flows in the short and long term. Interest-bearing debt is followed up and managed together with interest-bearing receivables at Group level.

The following table presents an overview of the maturity structure for the Group's financial liabilities, based on non-discounted contractual payments. In instances where the counterparty can demand earlier redemption, the sum is recorded in the earliest period in which the payment can be demanded by the counterparty.

2017	Remaining period		
	0-1 year	1-5 years	More than 5 years
Debt to financial institutions – mortgage loans	0	749,400	0
Debt to financial institutions – leasing*	17,371	166,395	0
Other provisions	0	320	0
Trade payables	603,884	0	0
Current liabilities**	1,125,747	0	0
Interest related to mortgage loans	11,241	33,723	0
Interest related to financial leasing debt	4,316	6,809	0
Total	**1,762,559**	**956,647**	**0**

2016	Remaining period		
	0-1 year	1-5 years	More than 5 years
Debt to financial institutions – mortgage loans	0	711,300	0
Debt to financial institutions – leasing*	16,498	182,987	0
Liabilities at fair value	24,135	0	0
Other provisions	0	627	0
Trade payables	628,347	0	0
Current liabilities**	1,109,643	0	0
Interest related to mortgage loans	12,803	51,214	0
Interest related to financial leasing debt	5,713	2,528	0
Total	**1,797,139**	**948,656**	**0**

* Read more about the maturity profile of financial leases in Note 16 concerning Leasing agreements.
** Current liabilities include collected alcohol taxes.

Currency risk

The Group is exposed to currency risk as it has operations in several different countries. The Group's currency exposure can mainly be divided into two areas: cash flow risk and translation risk. The principal objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in NOK. Changes in costs from suppliers in functional currency due to currency changes are continuously offset by changes in sales prices to customers and through renegotiation of purchase prices from suppliers. The most significant currencies are EUR, USD, SEK and DKK. The risk horizon, i.e., the time it takes to compensate for negative exchange rate fluctuations, is to a great extent controlled by price-adjustment opportunities in the state monopolies in the Nordic region. In Norway this takes place every four months and in Sweden every six months. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions.

All of the Group's non-current borrowing is undertaken in SEK, as a natural hedging of cash flow in the form of dividends in SEK.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate in the companies' functional currencies.

The Group's presentation currency is NOK. The Group is therefore further exposed to currency risk when translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged. As at 31.12.2017, the net translation difference associated with the majority's equity was positive at NOK 300.8 million, corresponding to a positive change in 2017 of NOK 72.0 million (positive by NOK 228.8 million at the end of 2016).

The table below shows the Group's purchase of non-functional foreign exchange during 2017.

Figures in 1,000 (in the currency concerned)	Purchase of currency 2017 Spot	Forward	Total	Proportion hedged via forward contracts
EUR	85,554	15,885	101,439	15.7%
USD	10,092	390	10,482	3.7%
AUD	1,048	230	1,278	18.0%
GBP	2,215	80	2,295	3.5%
DKK	70,000	0	70,000	0.0%
SEK	40	0	40	0.0%

Figures in 1,000 (in the currency concerned)	Purchase of currency 2016 Spot	Forward	Total	Proportion hedged via forward contracts
EUR	89,114	23,450	112,564	20.8%
USD	9,116	780	9,896	7.9%
AUD	1,043	0	1,043	0.0%
GBP	830	195	1,025	19.0%
SEK	70	0	70	0.0%

At the end of the year, the Group had the following forward contracts related to the distribution activities, which were booked at fair value with value changes through the profit or loss. The represents financial hedging and the Group does not use hedge accounting.

31.12.17

Forward contracts *Figures in NOK 1,000*	Currency	Currency amount	Value in NOK - at end of period	Forward value in NOK	Fair value in NOK	Due date
Purchase contracts	EUR	2,000	19,702	18,783	919	2018
Purchase contracts	USD	110	907	856	51	2018
Purchase contracts	AUD	60	385	373	12	2018
Purchase contracts	GBP	20	222	211	11	2018
Total					**993**	

31.12.16

Forward contracts *Figures in NOK 1,000*	Currency	Currency amount	Value in NOK - at end of period	Forward value in NOK	Fair value in NOK	Due date
Purchase contracts	EUR	3,600	32,711	33,579	-868	2017
Purchase contracts	GBP	25	265	270	-5	2017
Purchase contracts	USD	80	692	664	28	2017
Total					**-844**	

All forward contracts are recognised at fair value as of the close of the financial year.

Sensitivity to exchange rate fluctuation:
The following table shows the Group's sensitivity to changes in the most important exchange rates, if all other variables remain constant.

The effect on the Group's profit before tax is calculated as changes in the fair value of monetary assets and liabilities as at 31.12.2017 in foreign currency (non-functional currency). This includes hedging derivatives recognised at fair value with value changes via profit or loss.

The effect on other comprehensive income (OCI) is calculated as the effect of the translation differences associated with subsidiaries in foreign currency as at 31.12.2017.

Figures in NOK 1,000	Change in exchange rate	Effect on pre-tax profit	Total effect on OCI before tax
EUR	5%	1,416	1,461
EUR	-5%	-1,416	-1,461
SEK	5%	-2,187	-168
SEK	-5%	2,187	168
DKK	5%	4,378	41,317
DKK	-5%	-4,378	-41,317

The Group's exposure to other currencies is insignificant as at 31.12.2017.

Categorisation of financial assets and liabilities:

Assets

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Loans and receivables	Assets available for sale	Total book value of financial assets, 31.12	Prepaid costs	Total in the statement of financial position 31.12.
Other investments in shares	0	0	200	**200**	0	**200**
Other non-current receivables	0	1,205	0	**1,205**	0	**1,205**
Trade receivables	0	1,432,164	0	**1,432,164**	0	**1,432,164**
Other receivables	993	70,981	0	**71,974**	14,921	**86,895**
Bank deposits	0	184,415	0	**184,415**	0	**184,415**
Total financial assets 31.12.2017	**993**	**1,688,765**	**200**	**1,689,958**	**14,921**	**1,704,879**
Other investments in shares	0	0	200	**200**	0	**200**
Other non-current receivables	0	1235	0	**1,235**	0	**1,235**
Trade receivables	0	1,344,067	0	**1,344,067**	0	**1,344,067**
Other receivables	0	67,914	0	**67,914**	14,008	**81,922**
Bank deposits	0	199,385	0	**199,385**	0	**199,385**
Total financial assets 31.12.2016	**0**	**1,612,601**	**200**	**1,612,801**	**14,008**	**1,626,809**

Liabilities

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial liability	Total book value of financial liabilities 31.12.	Provision for accrued expenses and statutory liabilities	Total in the statement of financial position 31.12.
Debt to financial institutions	0	999,289	**999,289**	0	**999,289**
Liabilities at fair value	0	0	**0**	0	**0**
Other non-current liabilities	0	0	**0**	0	**0**
Trade payables	0	603,884	**603,884**	0	**603,884**
Other current liabilities	0	14,916	**14,916**	182,826	**197,742**
Total financial liabilities 31.12.2017	**0**	**1,618,089**	**1,618,089**	**182,826**	**1,800,915**
Debt to financial institutions	0	902,753	**902,753**	0	**902,753**
Liabilities at fair value	24,135	0	**24,135**	0	**24,135**
Other non-current liabilities	0	0	**0**	0	**0**
Trade payables	0	628,347	**628,347**	0	**628,347**
Other current liabilities	844	7,793	**8,637**	188,697	**197,334**
Total financial liabilities 31.12.2016	**24,979**	**1,538,893**	**1,563,872**	**188,697**	**1,752,569**

Fair value hierarchy

The Group uses the following hierarchy to determine and report the fair value of financial instruments:

Level 1: Listed (unadjusted) prices in active markets
Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.
Level 3: Techniques for calculation of fair value based on other than observable market data.

As at 31 December 2017, the Arcus Group had the following financial liabilities at fair value in the statement of financial position:

31.12.17	Level 1	Level 2	Level 3	Book value as at 31.12.
Currency derivatives	0	993	0	**993**
Total assets	**0**	**993**	**0**	**993**

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value	0	0	0	**0**
Currency derivatives	0	0	0	**0**
Total liabilities	**0**	**0**	**0**	**0**

31.12.16	Level 1	Level 2	Level 3	Book value as at 31.12.
Currency derivatives	0	0	0	**0**
Total assets	**0**	**0**	**0**	**0**

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value	0	0	24,135	**24,135**
Currency derivatives	0	844	0	**844**
Total liabilities	**0**	**844**	**24,135**	**24,979**

There have been no reclassifications between Level 1 and Level 2 during the period. Nor have there been any transfers out of Level 3 during the period.

Reconciliation of liabilities (Level 3):

Commitments classified at Level 3 are historically related to options for the purchase of non-controlling interests and a previous co-investment programme for senior executives. Further information on these commitments is presented in Note 22.

	Book value 31.12.2016	Used/ exercised 2017	Provision made/issued 2017	Value changes 2017	Recognised interest 2017	Book value 31.12.2017
Liabilities at fair value	24,135	-10,483	0	-13,673	21	**0**
Total	**24,135**	**-10,483**	**0**	**-13,673**	**21**	**0**

	Book value 31.12.2015	Used/ exercised 2016	Provision made/issued 2016	Value changes 2016	Recognised interest 2016	Book value 31.12.2016
Liabilities at fair value	118,999	-244,275	1,000	148,155	256	**24,135**
Total	**118,999**	**-244,275**	**1,000**	**148,155**	**256**	**24,135**

Capital management

The Group's overall objective is that the Group at all times has sufficient liquidity to fulfil its obligations in both the short and long term. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance. Unutilised credit opportunities are described in Note 19.

As far as possible, the Group wishes to have flexibility for its liquid assets in relation to day-to-day operations. The Group achieves this through a Group cash pool system with a drawing facility that as of 31.12.2017 is managed by Arcus ASA.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. The Group works according to the objective that the net interest-bearing debt may not exceed 2.5 times EBITDA.

There were no changes in the Group's non-current debt financing during 2017. At the end of 2017, the agreement on a mortgage loan facility contains a loan term (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31.12.2017 the Group was well within the required ratio.

On the introduction of IFRS 16 Leases as from 2019, the Group's reported net interest-bearing debt and adjusted EBITDA will change significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to today's model, independently of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms will not be affected by the introduction of IFRS 16.

The Group also has financial leasing agreements for major investments in production equipment.

NOK million	2017	2016
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	909,218	886,255
Current interest-bearing debt to credit institutions	90,071	16,498
Capitalised front-end fees	6,577	8,032
Bank deposits and other cash and cash equivalents	-184,415	-199,385
Net interest-bearing debt	**821,451**	**711,400**

NOTE 3 INFORMATION ON CASH FLOWS

The Group prepares the statement of cash flows according to an indirect method. Below is a specification of cash flow effects which are not presented elsewhere in the Notes.

EFFECTS OF CASH FLOWS FROM OPERATIONS:

Pension costs and other provisions without cash effect
Pension costs without cash effect are the change in pension obligations in the statement of financial position adjusted for obligations from acquisition or sale, and the effects of booked estimate deviations booked to the total comprehensive income (OCI).

Figures in NOK 1000	Note	2017	2016
Book pension obligations at the beginning of the year	10	-34,092	-35,902
Estimate deviations booked to the total comprehensive income	10	4,438	-1,278
Book pension obligations at the end of the year	10	30,552	34,092
Pension costs without cash effect		**898**	**-3,088**
Book other provisions for obligations at the beginning of the year	23	-627	-1,140
Book other provisions for obligations at the end of the year	23	320	627
Costs from other provisions without cash effect		**-307**	**-513**
Total pension costs and other provisions without cash effect		**591**	**-3,601**

Value changes without cash effect
Below is a specification of value changes included in the statement of income, but without cash effect.

Figures in NOK 1000	Note	2017	2016
Value change in options for the purchase of non-controlling interests	11,22	147	28,180
Value change in previous co-investment programme for senior executives	11,22	-13,821	119,979
Costs related to share-based remuneration without cash effect	9	9,415	731
Amortisation of front-end fees for interest-bearing debt	21	1,652	20,636
Value change, interest rate swaps	11	0	-4,552
Value change, forward exchange contracts	11	-1,837	0
Total value changes without cash effect		**-4,444**	**164,974**

Loss on sale of fixed assets and intangible fixed assets
The accounting loss or profit on the sale of fixed assets and intangible fixed assets has no cash flow effect, which is thereby reversed from the operational activities in the indirect method. The sales proceeds related to these divestments is the Group's cash flow effect under investment activities.

Figures in NOK 1000	Note	2017	2016
Book value of sold fixed assets and intangible fixed assets	14,15	0	9
Sales proceeds from sold fixed assets and intangible fixed assets		30	1,060
Profit (-) / loss (+) on sale of fixed assets and intangible fixed assets		**-30**	**-1,051**

Unrealised agio
Urealised agio is related to translation differences for working capital items in foreign subsidiaries with a functional currency in other than the functional currency, and statement of income items linked to the currency translation of loans booked in other currencies than the functional currency.

Figures in NOK 1000	Note	2017	2016
Translation differences for working capital items		19,195	-13,454
The effects on the result of the translation of loans booked in another currency than the functional currency		0	-2,510
Total unrealised agio		**19,195**	**-15,964**

Changes in working capital
Changes in working capital are the change in working capital items in the statement of financial position, adjusted for working capital items from the acquisition or sale of companies during the period.

Figures in NOK 1000	Note	2017	2016
Book value of inventories at the beginning of the year		378,777	388,217
Addition of inventories on acquisition of companies during the year		201	0
Book value of inventories at the end of the year		-410,759	-378,777
Change in inventories		**-31,781**	**9,440**

Figures in NOK 1000	Note	2017	2016
Book value of trade receivables at the beginning of the year		1,344,067	1,003,328
Addition of trade receivables on acquisition of companies during the year		44,158	0
Book value of trade receivables at the end of the year		-1,432,164	-1,344,067
Change in trade receivables		**-43,939**	**-340,739**

Figures in NOK 1000	Note	2017	2016
Book value of trade payables at the beginning of the year		-628,347	-551,457
Addition of trade payables on acquisition of companies during the year		-20,974	0
Book value of trade payables at the end of the year		603,884	628,347
Change in trade payables		**-45,437**	**76,890**

Figures in NOK 1000	Note	2017	2016
Book value of other current receivables at the beginning of the year	17	78,996	90,520
Addition of other current receivables on acquisition of companies during the year	26	845	0
Book value of other current receivables at the end of the year	17	-85,902	-78,966
Change in other current receivables		**-6,061**	**11,554**
Book value of other current liabilities at the beginning of the year	24	-1,108,674	-1,086,737
Addition of other current liabilities on acquisition of companies during the year	26	-31,626	0
Book value of other current liabilities at the end of the year	24	1,124,105	1,108,674
Change in other current liabilities		**-16,195**	**21,937**
Change in other current assets and other liabilities		**-22,256**	**33,491**

EFFECTS OF CASH FLOWS FROM INVESTMENT ACTIVITIES

Payments on acquisition of other financial investments

In 2017 the entire amount concerns a payment related to an increased ownership interest in an associated company. The Group had no equivalent payments in 2016.

Figures in NOK 1000	Note	2017	2016
Increased ownership interest in an associated company (Tiffon SA)	13	-454	0
Payments on acquisition of other financial investments		**-454**	**0**

EFFECTS IN CASH FLOWS FROM FINANCING ACTIVITIES

Interest cost paid during the period

The Group has quarterly interest payment dates, so that the Group's recognised interest payable coincides with the interest paid during the year. The difference between recognised interest payable and interest paid is related to calculated interest costs relating to liabilities at fair value through profit and loss. In 2016 this also concerns the settlement of an interest rate swap, which entailed a difference in relation to recognised interest costs.

Figures in NOK 1000	Note	2017	2016
Interest paid to credit institutions	11	-31,454	-70,158
Paid on settlement of interest rate swap		0	-12,873
Interest cost paid during the period		**-31,454**	**-83,031**

Payment of dividend

The difference in divided paid in 2016 and divided carried to equity in 2016 is related to how dividend to a minority for 2015 was not paid before January 2016.

NOTE 4 REVENUES

Sales revenue is the primary income source for the Group and related segments.

Spirits
The primary revenue source in Spirits is the sale of spirits products, of which most of the sales revenue is from our proprietary products, of which the Group is also the owner of the brand. In addition, this segment also has sales revenue from a good number of agencies, of which the products may be proprietary or imported items that are ready for sale, but where the brand is owned by other external operators. The most important spirits categories are Aquavit, Bitters, Vodka and Cognac.

In geographical terms, Norway, Denmark and Sweden are the most important markets, but the Group also has sales to Germany, the USA, Finland and DFTR (Duty Free Travel Retail), as well as other sales to other markets.

Wine
The primary income source for Wine is sales of wine products, where most of the sales revenue is from agency activities, whereby the Group imports items that are ready for sale. The Group also has considerable sales revenue from sales of own Wine brands, with wine being mixed and bottled in the Group's own production facility.

In geographical terms, the Group has sales revenue from Wine in Norway, Sweden and Finland, and to small extent from DFTR.

Distribution
The Group's Distribution activities comprise its subsidiary, Vectura, whose primary revenue source is comprehensive logistics services for both internal and external suppliers. Comprehensive logistics services comprise everything from placing orders on behalf of a supplier, goods receipt, stock accounting, receiving orders from end-customers, order picking, goods distribution and invoicing of end-customers. At the same time as Vectura invoices the end-customer, Vectura buys the goods from the supplier. Vectura also invoices special taxes (alcohol duties) to the end-customer, on behalf of the Norwegian tax authorities.

Vectura recognises all of its income on a net basis after deduction of special taxes, cost of sales and stock handling costs, based on an overall assessment that Vectura's income source is related to the delivery of comprehensive logistics services and that the risk on the flow of goods is the supplier's responsibility.

Below is a specification of Vectura's net sales income:

Figures in NOK 1000	2017	2016
Invoiced revenues	6,401,693	6,169,328
Invoiced special taxes	-3,802,820	-3,682,014
Cost of sales	-2,357,867	-2,227,097
Net external sales revenues, Distribution	**241,006**	**260,217**

Other operating revenues
Other operating revenues primarily comprise revenues other than the primary source of income. For the Spirits segment this consists mainly of contract bottling, and for the Wine segment glass sales, while for the Distribution segment this consists mainly of other activity-based income, including pallet location hire, export handling, destruction of dead stock and quarter pallet production.

The following tables present the Group's total external revenues:

	2017			2016		
Sales revenue by market - Group:	**Sales revenue**	**Other operating revenues**	**Total**	**Sales revenue**	**Other operating revenues**	**Total**
Norway	996,050	24,568	1,020,618	993,760	20,990	1,014,750
Sweden	1,006,576	12,944	1,019,520	1,028,103	11,682	1,039,785
Finland	221,385	4,610	225,995	207,728	0	207,728
Denmark	146,109	0	146,109	133,108	0	133,108
Germany	59,940	1,504	61,444	58,940	0	58,940
USA	3,238	580	3,818	5,727	0	5,727
DFTR	94,870	0	95,537	92,954	0	92,954
Other international	1,958	728	2,019	1,506	27,899	29,405
Total operating revenues	**2,530,126**	**44,934**	**2,575,060**	**2,521,826**	**60,571**	**2,582,397**

The following tables present the segments' total external and internal revenues:

	2017			2016		
Revenue by market - Spirits:	**Sales revenues**	**Other operating revenues**	**Total**	**Sales revenue**	**Other operating revenues**	**Total**
Norway	301,579	141,306	442,885	308,463	122,955	431,418
Sweden	126,469	5,455	131,924	116,543	1,942	118,485
Finland	32,711	289	33,000	35,267	0	35,267
Denmark	146,109	0	146,109	133,108	0	133,108
Germany	59,940	1,504	61,444	58,940	0	58,940
USA	3,238	580	3,818	5,727	0	5,727
DFTR	91,417	0	92,084	91,554	0	91,554
Other international	1,958	728	2,019	1,505	27,879	29,384
Total operating revenues	**763,421**	**149,862**	**913,283**	**751,107**	**152,776**	**903,883**

	2017			2016		
Revenue by market - Wine:	**Sales revenue**	**Other operating revenues**	**Total**	**Sales revenue**	**Other operating revenues**	**Total**
Norway	448,477	360	448,837	453,255	0	453,255
Sweden	882,085	13,509	895,594	911,560	13,697	925,257
Finland	188,674	4,321	192,995	172,461	0	172,461
DFTR	3,453	0	3,453	1,400	0	1,400
Total operating revenues	**1,522,689**	**18,190**	**1,540,879**	**1,538,676**	**13,697**	**1,552,373**

	2017			2016		
Revenue by market - Distribution:	**Sales revenue**	**Other operating revenues**	**Total**	**Sales revenue**	**Other operating revenues**	**Total**
Norway	251,332	33,071	284,403	232,043	30,881	262,924
Total operating revenues	**251,332**	**33,071**	**284,403**	**232,043**	**30,881**	**262,924**

Significant customer relationships
The Group has significant customer relationships with Vinmonopolet in Norway and Systembolaget in Sweden, which each represent more than 10 per cent of the Group's total operating revenues.

Total operating revenue from Vinmonopolet was approximately NOK 689 million in 2017, of which NOK 286 million in Spirits and NOK 403 million in Wine. In 2016 the corresponding total was approximately NOK 693 million, of which NOK 288 million in Spirits and NOK 405 million in Wine.

Total operating revenue from Systembolaget was approximately NOK 905 million in 2017, of which NOK 116 million in Spirits and NOK 789 million in Wine. In 2016 the corresponding total was approximately NOK 947 million, of which NOK 108 million in Spirits and NOK 839 million in Wine.

NOTE 5 SEGMENT INFORMATION

2017 *Figures in NOK 1,000*	Spirits	Wine	Distribution	Other	Eliminations/ reclassifications	Group
Sales revenues – external	767,591	1,521,529	241,006	0	0	**2,530,126**
Sales revenues between the segments	-4,170	1,160	10,326	0	-7,316	**0**
Other operating revenues – external	6,669	15,072	22,741	452	0	**44,934**
Other operating revenues between the segments	143,193	3,118	10,330	173,730	-330,371	**0**
Total operating revenues	**913,283**	**1,540,879**	**284,403**	**174,182**	**-337,687**	**2,575,060**
Net profit on sale of fixed assets	30	0	0	0	0	**30**
Cost of sales	-404,928	-1,154,411	0	0	150,814	**-1,408,524**
Salaries and other personnel costs	-122,269	-100,122	-134,419	-60,602	0	**-417,412**
Other operating expenses	-206,650	-94,678	-135,852	-141,392	186,873	**-391,699**
Share of profit from TS and FKV	3,286	0	0	0	0	**3,286**
EBITDA, adjusted	**182,753**	**191,668**	**14,132**	**-27,812**	**0**	**360,741**
Other income and expenses	-7,142	-5,166	-647	-212	0	**-13,167**
Depreciation and amortisation	-24,117	-1,794	-12,825	-7,666	-5,180	**-51,581**
Write-downs[1]	0	0	0	0	-22,700	**-22,700**
Operating profit	**151,494**	**184,709**	**660**	**-35,690**	**-27,880**	**273,293**
Net financial profit/loss	**2,988**	**-18,103**	**480**	**-1,577**	**1,669**	**-14,543**
PRE-TAX PROFIT	**154,482**	**166,606**	**1,140**	**-37,267**	**-26,211**	**258,750**

1 Impairment of goodwill in 2017 relates to added value on the acquisition of Excellars AS. This added value is booked at Group level, see also Note 15.

2016 *Figures in NOK 1,000*	**Spirits**	**Wine**	**Distribution**	**Other**	**Eliminations/ reclassification**	**Group**
Sales revenues – external	746,230	1,515,379	260,217	0	0	**2,521,826**
Sales revenues between the segments	4,877	23,297	-28,174	0	0	**0**
Other operating revenues – external	28,045	11,478	20,646	403	0	**60,571**
Other operating revenues between the segments	124,731	2,220	10,235	173,011	-310,196	**0**
Total operating revenues	**903,883**	**1,552,373**	**262,924**	**173,414**	**-310,196**	**2,582,397**
Net profit on sale of fixed assets	144	0	0	0	0	**144**
Cost of sales	-427,031	-1,165,620	0	0	124,731	**-1,467,920**
Salaries and other personnel costs	-117,244	-93,289	-124,008	-58,004	0	**-392,545**
Other operating expenses	-202,954	-99,302	-136,320	-139,405	185,465	**-392,516**
Share of profit from TS and FKV	5,789	0	0	0	0	**5,789**
EBITDA, adjusted	**162,587**	**194,162**	**2,596**	**-23,995**	**0**	**335,349**
Other income and expenses	-3,916	0	-399	-40,559	0	**-44,874**
Depreciation and amortisation	-23,906	-1,014	-13,632	-8,363	-4,710	**-51,625**
Write-downs	0	0	0	0	0	**0**
Operating profit	**134,765**	**193,148**	**-11,435**	**-72,917**	**-4,711**	**238,850**
Net financial profit/loss	**-9,086**	**-17,576**	**404**	**-183,385**	**-27,085**	**-236,728**
PRE-TAX PROFIT	**125,679**	**175,572**	**-11,031**	**-256,302**	**-31,796**	**2,122**

The Group does not present the segments' assets or liabilities as this is not part of the Group's internal reporting either.

For information regarding pricing associated with sales between the segments, see Note 6.

NOTE 6 TRANSACTIONS WITH RELATED PARTIES

In addition to subsidiaries and associated companies, the Group's related parties are defined as the owners, all members of the Board of Directors and Group executive management, as well as companies in which any of these parties have either controlling interests, Board appointments or managerial positions.

The Group's transactions with related parties:

Purchase of goods and services:

Figures in NOK 1,000	Relationship	Delivery	2017	2016
Hoff SA	Shareholder	Raw materials	22,386	22,469
Tiffon SA	Associated company (34.75%)	Raw materials and consumables	52,746	56,051
Det Danske Spiritus Kompagni A/S[1]	Jointly controlled entity (50%)	Leased offices, licences	0	3,314
Gjelleråsen Eiendom AS	Owned by shareholder (Canica AS)	Rent	79,150	77,605
Thomas Patay	General manager of Vingruppen AS	Minority shareholder in Vinordia AS, Symposium Wines AS and Vinuniq AS	2,741	0
Total purchase of goods and services			**157,023**	**159,439**

Sales of goods and services:

Figures in NOK 1,000	Relationship	Delivery	2017	2016
Tiffon SA	Associated company (34.75%)	Market support	3,714	3,393
Det Danske Spiritus Kompagni A/S[1]	Jointly controlled entity (50%)	Sales of finished goods	0	132,184
Total sales of goods and services			**3,714**	**135,577**

Receivables from related parties as at 31.12.:

Figures in NOK 1,000	Relationship	Nature of receivable	2017	2016
Tiffon SA	Associated company (34.75%)	Current receivables	170	0
Det Danske Spiritus Kompagni A/S[1]	Jointly controlled entity (50%)	Current receivables	0	21,061
Total receivables from related parties as at 31.12.:			**170**	**21,061**

Liabilities to related parties as at 31.12.:

Figures in NOK 1,000	Relationship	Nature of liability	2017	2016
Hoff SA	Shareholder	Current liabilities	1,147	549
Tiffon SA	Associated company (34.75%)	Current liabilities	10,821	11,082
Det Danske Spiritus Kompagni A/S[1]	Jointly controlled entity (50%)	Current liabilities	0	113
Total liabilities to related parties as at 31.12.:			**11,968**	**11,744**

All transactions with related parties are on market terms.

1 Det Danske Spiritus Kompagni A/S was a jointly-controlled company up to January 2017, when the Group acquired the remaining 50 per cent ownership interest. For further information, see Note 26.

Transactions between Group companies:
Agreements have been made between the companies in the Group on the cost distribution for internal services and joint procurement. This applies mainly to rent, maintenance and property service functions, as well as shared functions such as finance, IT, payroll, etc. The services are recognised in the various companies' accounts as other operating revenues and other operating expenses, respectively.

All buying and selling of goods and services between the companies takes place on market terms and is eliminated in the consolidated financial statements.

NOTE 7 OTHER OPERATING EXPENSES

Figures in NOK 1,000	2017	2016
Sales and advertising costs	-122,678	-121,688
Logistics costs	-56,331	-56,071
Rent	-86,706	-82,851
Maintenance costs	-37,094	-34,251
Other costs associated with premises	-27,950	-22,904
Travel expenses	-16,991	-18,814
Consultants and external outsourcing of services	-39,543	-73,820
Other costs	-12,650	-20,938
Total other operating expenses	**-399,944**	**-431,337**
Of which effects which are included in Other income and expenses in the financial statements	8,245	38,821
Total other operating expenses as presented in the statement of income	**-391,699**	**-392,516**

Other income and expenses
Other income and expenses comprises significant positive and negative non-recurring items and restructuring costs. The main purpose of this item is to show these significant non-recurring and non-periodic items, so that the development and comparability of the ordinary items presented in the statement of income are more relevant for the activities. See also the section concerning alternative performance measurement (APM).

Figures in NOK 1,000	2017	2016
Personnel policy and other organisational measures[1]	-4,922	-1,029
Expenses related to the IPO[2]	0	-41,474
Other transaction expenses	-502	0
Other non-recurring items[3]	-7,743	-2,371
Total other income and expenses	**-13,167**	**-44,874**

1 **Personnel policy and other organisational measures:** Costs related to organisational and staffing adjustments in order to meet the restructuring need with new work processes and improved profitability, as well as costs related to a temporary incentive programme with matching shares to selected key employees in conjunction with the IPO in 2016. This programme expires in Q1 2019, and further information about the programme is presented in Note 9.

2 **Expenses related to the IPO:** Expenses concerning the process prior to the listing of Arcus ASA on 1 December 2016. This is to a great extent related to fees for advisers and banks, but also a number of other expenses in direct relation to this process.

3 **Other non-recurring items:** Other non-recurring items consist of both positive and negative items.
In 2017, this mainly concerns costs related to a dispute with the Swedish customs authorities and a customer concerning a contract-bottling delivery. These costs primarily comprise Swedish customs and VAT charges levied on the Group in conjunction with the delivery, and related legal fees.
In 2016 this mainly consists of the profit on the sale of the last holiday cabin held by the Group, costs related to the completion of relocating the production of Danish brands from Aalborg to Gjelleråsen, and settlement related to a volume undertaking to a former logistics partner in Denmark on the replacement of the logistics partner in 2016.

Auditors' remuneration
The auditors' fees are specified below. The fees cover the Group auditor, EY, as well as other auditors of Group subsidiaries.

Figures in NOK 1,000	2017	2016
Statutory audit	3,100	2,336
Other financial auditing	171	215
Other certification services	69	774
Tax consultancy services	170	239
Other non-audit services	42	226
Total remuneration to the auditors	**3,552**	**3,790**

All amounts are exclusive of VAT.

Total audit fees for the Group include fees to auditors other than the Group auditor of TNOK 1,243 for 2017 and TNOK 1,118 for 2016.

NOTE 8 SALARIES AND OTHER PERSONNEL COSTS

Figures in NOK 1,000	2017	2016
Salaries including holiday pay	-280,838	-266,685
Social security costs	-58,434	-63,732
Pension costs including social security costs	-32,406	-28,397
Other personnel costs	-50,656	-40,691
Total salaries and other personnel costs	**-422,334**	**-399,505**
Of which non-recurring items and restructuring costs, which are included under Other income and expenses in the statement of income (see Note 7)	4,922	6,960
Total other operating costs, as presented in the statement of income line under salary costs	**-417,412**	**-392,545**
Average number of FTEs employed during the year	420	411

Remuneration to senior executives

The terms and conditions for the Group CEO are set by the Board of Directors, which also makes decisions in principle concerning the Group's terms and conditions policy and compensation schemes for other employees. The Board has a remuneration committee which prepares remuneration proposals for decision by the Board. The committee comprises two members of the Board elected by the shareholders. The administration handles cases for the remuneration committee and the Board.

In 2017, the Group Management was covered by the Group's annual bonus system, a temporary share programme (matching shares) that was established in conjunction with the IPO in 2016, as well as a newly-established option programme adopted at the Annual General Meeting in May 2017. The Group CEO has an ordinary bonus agreement which, under certain conditions, will release payment of up to five months' salary, while other members of the Group Management can receive up to four months' salary.

The Group CEO and other members of the Norwegian Group Management have an ordinary occupational pension with Storebrand, which entails 5 per cent pension contributions for salaries of 0 to 7.1G and 11 per cent for salaries from 7.1 to 12G. The Swedish member of the Group Management has a defined contribution pension scheme for which the contribution rates vary with the salary by up to 34 per cent. The Group CEO also has a supplementary pension agreement that gives pension earnings of 15 per cent of salaries above 12G. This pension entitlement is capitalised annually in the consolidated statement of financial position and the return is based on the return from the Storebrand Balansert pension fund.

Salaries and other remuneration to the Group Management in 2017:

Figures in 1000 Local currency	Currency	Salary	Bonus earned in 2017	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	3,031	286	227	386
Sigmund Toth	NOK	1,728	147	146	84
Erlend Stefansson	NOK	2,033	139	179	84
Erik Bern	NOK	1,780	132	190	84
Bjørn Delbæk	NOK	1,572	103	191	84
Per Bjørkum	NOK	1,523	107	137	84
Thomas Patay	NOK	2,288	144	195	84
Lorna Stangeland[1]	NOK	900	0	50	21
Christian Granlund[2]	NOK	870	290	90	45
Claes Lindquist[3]	SEK	2,193	1,031	102	862

1. Lorna Stangeland resigned on 31 March 2017 and the benefits stated represent three months' employment. Lorna joined the Board of Directors of Vectura AS after her resignation.
2. Christian Granlund was appointed on 12 June 2017 and the benefits stated represent 6.5 months' employment.
3. Claes Lindquist is reducing his activities and will leave his position on 31.03.2018. Claes will join the Board of Directors of the subsidiary Vingruppen I Norden AB after his resignation.

Salaries and other remuneration to the Group Management in 2016:

Figures in 1000 Local currency	Currency	Salary	Bonus earned in 2016	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	2,444	1,100	220	308
Rune Midtgaard[1]	NOK	1,820	446	150	69
Sigmund Toth[2]	NOK	550	614	2	28
Erlend Stefansson	NOK	1,981	669	147	83
Erik Bern	NOK	1,743	585	217	83
Bjørn Delbæk[3]	NOK	249	511	25	14
Per Bjørkum	NOK	1,437	485	135	83
Thomas Patay[4]	NOK	2,264	455	192	83
Lorna Stangeland	NOK	1,700	617	194	83
Claes Lindquist	SEK	2,141	956	69	983

1. Rune Midtgaard was CFO up to 1 September 2016, but was a member of the Group Management until he resigned on 31.10.2016. Benefits paid equivalent to ten months' employment.
2. Sigmund Toth took over as CFO as from 1 September 2016. The benefits paid represent the four months in which he was a member of the Group Management.
3. Bjørn Delbæk was employed on a permanent basis as from 1.11.2016, and the benefits paid represent two months' employment. During the period from 1.1.2016 to 31.10.2016, Bjørn was a contractor and invoiced his services from his own company.
4. TNOK 151 of the salary paid is related to payment of services earned in previous years.

If the CEO gives notice of termination, he is subject to six months' notice of termination. If notice of termination is given by the Group, the Group CEO will be entitled to 12 months' severance pay, and during this period will not be able to take employment in competing companies.

Concerning the other Group Management members, Sigmund Toth, Erlend Stefansson, Erik Bern, Thomas Patay and Christian Granlund are subject to six months' notice of termination, while Per Bjørkum and Bjørn Delbæk are subject to three months' notice of termination. Claes Lindquist had nine months' notice of termination on his own resignation, and will work until the end of Q1 2018.

Concerning the other Group Management members, Erik Bern, Thomas Patay and Claes Lindquist are subject to a 12-month non-competition clause, while Sigmund Toth, Bjørn Delbæk, Per Bjørkum and Erlend Stefansson are subject to a six-month non-competition clause. They all have an agreement concerning severance pay during the period to which the non-competition clause applies.

No loans or surety are provided for the Group CEO, other Group Management or members of the Board of Directors.

The Group Management's holdings of ordinary shares in Arcus ASA are stated in Note 20.

Concerning the declaration of the Board of Directors regarding the fixing of salaries and other remuneration to executive personnel.
Pursuant to Section 6-16a of the Norwegian Public Limited Liability Companies Act, the Board of Directors will prepare a separate declaration on the fixing of salaries and other remuneration to executive personnel.

Furthermore, under section 5-6 (3) of the Norwegian Public Limited Liability Companies Act, an advisory vote must be held at the general meeting on the Board of Directors' guidelines for fixing remuneration to executive personnel for the coming financial year (see (ii) below). In so far as the guidelines concern share-based incentive arrangements, these shall also be approved by the general meeting (see (iii)).

(i) Salaries and other remuneration to executive personnel
Salaries and other remuneration to executive personnel for the preceding financial year are presented in Notes 8, 9 and 10 of the annual financial statements for Arcus ASA.

(ii) Guidelines for the fixing of salaries and other remuneration to executive personnel
With regard to guidelines for fixing salaries and other remuneration to executive personnel in the coming financial year, the Board of Directors will present the following guidelines to the General Meeting in 2018 for an advisory vote:

The purpose of Arcus' terms and conditions policy is to attract personnel with the competence that the Group requires, to further develop and retain employees with key expertise, and to promote a long-term perspective and continuous improvement with a view to achieving Arcus' business goals. As an overall principle, Arcus' policy must be competitive but not market-leading in terms of the total compensation package. The total compensation may consist of the following elements:

(a) Fixed elements – Basic salary, pension, etc.
Arcus uses internationally recognised job assessment systems to find the "right" level for the job and the fixed salary. Jobs are assessed in relation to their local market (country) and a pay range in relation to the median. The employee's area of responsibility, results and performance determine where he or she is placed on the salary scale.

Arcus has a defined-contribution occupational pension plan in Norway. The contribution rate is 5 per cent for salaries up to 7.1G and 11 per cent for salaries between 7.1G and 12G (as from 1.5.2017 1G is NOK 93,634). The CEO is the only employee who currently has an occupational pension for salaries above 12G and the contribution rate is 15 per cent. There are no arrangements or agreements regarding early retirement age for Group Management other than the AFP arrangement and the national insurance scheme, which allow all employees a flexible retirement age starting at the age of 62. All employees in Norway are subject to a statutory age limit of 72, but the age limit in the Group is contractually set at 70, which also applies to the Group Management.

The CEO of Vectura AS has the same pension scheme as the Group Management. The CEO of Vingruppen i Norden AB adheres to the Swedish regulations. The pension scheme in Sweden has different rules and higher contribution rates than in Norway.

In addition to the above, the Group provides benefits such as a company car and company telephone and other limited benefits in kind.

(b) Variable elements – annual bonus
Arcus has an annual bonus system. The bonus system for the Group Management has consisted of a financial component (70 per cent) tied to a performance-related target for the Group, and an individual component (30 per cent) tied to concrete and defined KPIs for the individual. For all other executive positions, the financial element is 50 per cent related to the target for the Group or company, and the individual element is 50 per cent.

All bonuses are self-financed. The maximum possible bonus for Group Management members is 30 per cent of their annual salary (four monthly salaries), although the CEO may receive a maximum annual bonus of five monthly salaries. In addition to the Group Management, approximately 70 managers and key staff participate in a bonus programme, but the criteria vary. These staff members may receive a bonus of between one and three monthly salaries.

The bonus programme for 2018 will consist of the same components, and its primary target will be the Group's and/or the company's earnings (financial element of 70 per cent). Individual bonuses (personal targets) with a maximum percentage of 30 per cent for Group Management are also a key element of the programme.

Executives of Vectura AS adhere to the same guidelines as the Group Management, but based on the company's EBIT.

Executives of Vingruppen i Norden AB currently adhere to a staggered bonus model, based on the company's EBIT, with maximum five monthly salaries.

(iii) Share-based incentive programmes
In conjunction with the IPO in 2016, the Group Management and an additional 33 managers/key staff were offered investment in shares in exchange for "matching shares" on conditions specified in the prospectus. In total, 29 people in addition to the Group Management subscribed to the offer. The matching programme will be concluded after the presentation of the result for Q4/2018 in 2019.

The Annual General Meeting in 2017 approved an option-based long-term incentive scheme for the Group Management, as well as the CEO of Vectura and the CEO of Vingruppen i Norden, and for additional managers and key persons. The primary objective of the programme is to provide executive personnel with incentives to generate long-term and continuous success and value creation for shareholders. Reference is made to the report described in Annex 4 to the notice convening the Annual General Meeting.

Arcus ASA has key persons in several wine companies in which it has invested as a minority owner, and this mainly concerns the general manager. This model has been a success for Group and created profitable new business, with well-motivated managers. It is appropriate to continue to allow the general manager of a wine company, based on an individual assessment, to be a minority owner, with an ownership interest limited to 9.9 per cent.

Such a model is intended to encourage an entrepreneurship culture, sound business acumen and internal competition between companies which, in turn, can increase the profitability of the company and of the employee. Financing must primarily take place as the employee's contribution of equity.

On starting up a new company, greater flexibility (up to 30 per cent ownership interest) must be accepted in terms of how much the employee should/may invest, based on an individual and commercial assessment.

(iv) Executive salary policy in previous financial years
The guidelines for salaries and other remuneration to executive personnel described in item (ii) also served as guidelines for fixing executive salaries and other remuneration in 2017. Full individual bonus was paid for 2016, while for 2017, 26 per cent of the maximum bonus will be paid.

(v) Changes in contractual agreements
Managing Director of Vectura AS Lorna Stangeland stepped down on 30 March 2017 and was replaced by Christian Granlund, who took over on 12 June 2017. Lorna Stangeland became an external member of the Board of Directors of Vectura AS as from 1 April 2017.

CEO Claes Lindquist of Vingruppen i Norden AB resigned with effect from 1 April 2018 in order to retire, and was replaced by Svante Selling, who took up the position on 1 February 2018. Claes Lindquist continues as an external member of the Board of Directors of Vingruppen i Norden AB as from 1 April 2018, and after his resignation as of 31 March 2018 will work on a consultant basis, so far for the rest of the year.

The remuneration of the Board of Directors is as follows, as from 3.5.2017

Chairman of the Board of Directors	NOK 500,000 p.a.
Board members elected by the shareholders	NOK 225,000 p.a.
Board members elected by the employees	NOK 150,000 p.a.
Deputy member elected by the employees	NOK 7,500 per meeting
Audit Committee	
Chair of the committee	NOK 85,000 p.a.
Member	NOK 40,000 p.a.
Remuneration Committee	
Chair of the committee	NOK 40,000 p.a.
Member	NOK 25,000 p.a.

Remuneration to the members of the Board of Directors in 2017:

Figures in NOK 1000		Board fees including committee work	Number of shares 31.12.2017
Board members elected by the shareholders			
Michael Holm Johansen	Chairman of the Board	480	150,000
Mikael Norlander	Resigning Board member in 2017	177	0
Hanne Refsholt		222	0
Leena Maria Saarinen		227	1,860
Trond Berger		301	17,441
Eilif Due[1]		275	3,299,325
Isabelle Ducellier	Resigning Board member in 2017	0	0
Stein Erik Hagen[2]	Newly-elected Board member in 2017	150	22,670,000
Ann-Beth Freuchen	Newly-elected Board member in 2017	150	0
Board members elected by the employees			
Erik Hagen		See the Table below	566
Ingrid E. Skistad[3]		See the Table below	1,368
Kjell Arne Greni		See the Table below	0

1. Eilif Due owns 2,325 shares on a personal basis. Other declared shareholdings relate to the shareholder Hoff SA, of which he is Chairman of the Board.
2. Stein Erik Hagen does not own shares on a personal basis. Declared shareholdings relate to the shareholder Canica AS, which is controlled by Stein Erik Hagen and his associate, and of which he is a member of the Board.
3. Ingrid E. Skistad owns 322 shares personally. Other shareholding is owned through Ibrygging Invest AS, where she is Chairman of the Board.

Figures in NOK 1000	Fixed salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	495	157	6	25
Ingrid E. Skistad	617	150	4	31
Kjell Arne Greni[1]	185	155	6	9

1. Kjell Arne Greni has a 40 per cent position

Remuneration to the members of the Board of Directors in 2016:

Figures in NOK 1000		Board fees including committee work	Number of shares, 31.12.2016
Board members elected by the shareholders			
Michael Holm Johansen	Newly-elected Board member in 2016	637	146,512
Mikael Norlander[1]		0	16,077,244
Hanne Refsholt	Newly-elected Board member in 2016	218	0
Leena Maria Saarinen	Newly-elected Board member in 2016	187	1,860
Trond Berger	Newly-elected Board member in 2016	34	17,441
Eilif Due[2]		140	3,299,325
Isabelle Ducellier	Newly-elected Board member in 2016	100	1,860
Leif Johansson	Resigning Board member in 2016	0	0
Daniel Repfennig	Resigning Board member in 2016	0	0
Marius Juul Møller	Resigning Board member in 2016	0	0
Board members elected by the employees			
Erik Hagen		See the Table below	244
Ingrid E. Skistad[3]	Newly-elected Board member in 2016	See the Table below	1,046
Kjell Arne Greni		See the Table below	0

1. Mikael Norlander represented the main shareholder, Ratos AB. The declared number of shares related to him also includes Ratos AB's shareholding.
2. Eilif Due owns 2,325 shares on a personal basis. Other declared shareholdings related to the shareholder Hoff SA, of which he is Chairman of the Board.
3. Shareholding is owned through Ibrygging Invest AS, where Ingrid E. Skistad is Chariman of the Board.

Figures in NOK 1000	Fixed salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	484	103	6	24
Ingrid E. Skistad[1]	97	25	0	5
Kjell Arne Greni[2]	174	83	7	9

1. Ingrid Skistad was elected to the Board as from 1.11.2016. The amounts paid represent two months as from her election to the Board.
2. Kjell Arne Greni has a 40 per cent position

NOTE 9 SHARE-BASED REMUNERATION

Share-based incentive schemes
The Group has two share-based incentive schemes for senior executives, which are related to the value growth of the Group. The Group also has a share savings programme in which all employees can participate.

Matching shares for senior executives and other key persons.
Before the Board of Directors in 2017 adopted a new long-term incentive scheme for senior executives, in conjunction with the IPO in 2016 a temporary two-year incentive scheme (interim retention plan) was adopted, in which 37 employees, including the Group Management, were awarded matching shares. These matching shares are granted to recipients in 2019 after the publication of the quarterly report for Q4 2018, if the person in question is still employed at this time.

For the Group Management, matching shares were granted whereby for each share they acquired in addition to their reinvestment obligations related to the settlement of the completed programme with synthetic shares and options, they also received one matching share. The members of the Group Management, who did not already hold synthetic shares or options were entitled to receive either one matching share for each share they purchased in total, or one matching share for every two shares they purchased in total.

Other key persons were invited to purchase shares for up to a given amount, with the right to receive one matching share for every two shares they purchased. Of the 33 key persons who received this offer, 29 made use of it. In 2017, two persons who were covered by this programme resigned, so at the end of 2017 there were 27 key persons in this programme.

If the listed share price on the redemption date exceeds two times the listed price on the allocation date, the number of matching shares will be reduced, so that the total value of the matching shares allocated does not exceed two times the value on the allocation date.

Below, the number of matching shares as at 31.12.2017 is presented, of which the fair value is based on Arcus' share price as at 31.12.2017 (NOK 46.50).

Figures in NOK 1000	Allocation date	Number of matching shares at the time of allocation	Number of matching shares 31.12.2016	Number of matching shares 31.12.2017	Fair value 31.12.2017	Redemption date
Kenneth Hamnes	01.12.16	42,100	42,100	42,100	1,958	28.02.19
Sigmund Toth	01.12.16	19,767	19,767	19,767	919	28.02.19
Erlend Stefansson	01.12.16	27,062	27,062	27,062	1,258	28.02.19
Erik Bern	01.12.16	9,956	9,956	9,956	463	28.02.19
Bjørn Delbæk	01.12.16	8,692	8,692	8,692	404	28.02.19
Per Bjørkum	01.12.16	8,256	8,256	8,256	384	28.02.19
Thomas Patay	01.12.16	68,785	68,785	68,785	3,199	28.02.19
Claes Lindquist	01.12.16	46,726	46,726	27,670	1,287	28.02.19
Total, Group Management		**231,344**	**231,344**	**212,288**	**9,871**	
Other managerial employees	01.12.16	149,415	149,415	118,530	5,512	28.02.19
Total number of matching shares		**380,759**	**380,759**	**330,818**	**15,383**	

Overview of the development in the number of allocated matching shares:

Number of matching shares	2017	2016
Allocated matching shares at the beginning of the year	380,759	0
Allocated matching shares during the year	0	380,759
Terminated matching shares during the year	-49,941	0
Allocated matching shares at the end of the year	**330,818**	**380,759**

Effects of matching shares in the accounts:

Figures in NOK 1,000	2017	2016
Earning of matching shares	6,323	606
Termination of matching shares	-80	0
Change in provision for employer taxes	1,252	125
Total costs related to matching shares	**7,495**	**731**
Liabilities[1]	**1,378**	**125**

1. Solely include employer taxes

Option programme for senior executives
At the Annual General Meeting in May 2017, a new option programme for senior executives in the Group was adopted, with annual allocation of new options.

The options' vesting period will be three years from the allocation date, where the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The number of options allocated annually will vary, and will correspond to the individual executive's potential maximum bonus that can be achieved in relation to the listed price on the allocation date. The options' strike price is calculated as the volume-adjusted listed price for the last ten days prior to the allocation date, with the addition of 10 per cent.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

Below the Group Management's options holdings are listed.

Allocation date	2017
Vesting period	**04.05.2017 - 04.05.2020**
Redemption period	**04.05.2020 - 04.05.2022**
Strike price	**NOK 51.53**

Number of options	2017	2016
Kenneth Hamnes	199,426	0
Sigmund Toth	90,773	0
Erlend Stefansson	110,628	0
Erik Bern	96,546	0
Bjørn Delbæk	84,508	0
Per Bjørkum	82,524	0
Thomas Patay	115,034	0
Christian Granlund	95,724	0
Claes Lindquist	40,584	0
Total, Group Management	**915,747**	**0**
Other managerial employees	313,557	0
Total number of options	**1,229,304**	**0**

Option calculation assumptions:		2017	2016
Share price on the allocation date	NOK	47.90	0
Share price on the balance sheet date	NOK	46.50	0
Redemption price – minimum	NOK	51.53	0
Redemption price – maximum	NOK	143.70	0
Risk-free interest %	%	1.1%	0.0%
Volatility* %	%	25.0%	0.0%
Expected dividend %	%	3.1%	0.0%

* As the company has no historical volatility figures that can be applied, the company has calculated average volatility for comparable companies on European stock exchanges within the same sector for the last five years.

Overview of development in the number of allocated options

Number of options	2017	2016
Allocated options during the year	1,407,369	0
Terminated options during the year	-178,065	0
Outstanding options at the end of the year	**1,229,304**	**0**

Effects of options in the accounts:

Figures in NOK 1,000	2017	2016
Earning of options	1,655	0
Change in provision for employer taxes	265	0
Total option costs	**1,920**	**0**
Liabilities[1]	**265**	**0**

1 Solely includes employer taxes

Share savings programme for all employees
In 2017, the Board of Directors adopted a general share savings scheme for all employees, under which all employees will annually have the opportunity to buy a limited number of shares in Arcus ASA, with a discount of 20 per cent. Sale of shares to employees below market value is recognised as a personnel cost comprising the difference between the market value of the shares and the purchase price.

This was first performed in November 2017, when 100 employees in total subscribed for a total of 31,234 shares. These shares were purchased at an average price of 46.56 and sold to the employees at a discount of 20 per cent, whereby each employee could purchase either 322 or 161 shares. For this, costs of TNOK 290 were charged to the consolidated accounts in 2017.

NOTE 10 PENSION COSTS, ASSETS AND OBLIGATIONS

Defined benefit pension plan

Up until 31 December 2008, Arcus ASA and its subsidiaries had a group defined benefit plan for their employees in Statens Pensjonskasse (the Norwegian Public Service Pension Fund – SPK) and Storebrand. The SPK pension plan also included a contractual early retirement plan (AFP) with financing from the commencement of employment. From 31 December 2008, the Board of Directors terminated the SPK group pension plan for the entire Group in order to switch to defined contribution plans.

With the transition to the new pension plan, all those who were ill or disabled remained in the respective defined benefit plans. Statens Pensjonskasse has confirmed that Arcus no longer has any legal obligations associated with the remaining pension recipients who are linked to the SPK defined benefit plan, but is only obliged to pay annual premium contributions specified by SPK, according to the same principle as for defined contribution plans. The Group therefore takes the current invoices from SPK to expenses in the same way as for the defined contribution plan. Within the pension obligation as at 31.12.2017, a provision of NOK 4.1 million is linked to five individuals in the Storebrand defined benefit plan. This is the only pension obligation secured with assets.

In addition, two individuals, who are no longer employed by the company, have a defined benefit plan for salaries above 12G (National Insurance base amount). This plan has been recognised with obligations totalling NOK 4.2 million at the end of 2017.

Gift pension and unfunded pension arrangement

On the transition to the defined contribution plan in 2009, there were individual employees who had previously been with SPK who would be disadvantaged in the event of early retirement at 65-67 years of age. To compensate for this, it was agreed that a gift pension would be paid to all employees who were with SPK before the transition. As at 31.12.2017, this gift pension is linked to 136 employees in the Norwegian operations, while the total obligation has been recognised at NOK 13.1 million.

The Group CEO has an unfunded pension arrangement in which the pension entitlement earned is 15 per cent of the salary above 12G. At the end of 2017, this obligation was recognised at NOK 0.7 million.

Contractual early retirement plan pension (AFP)

On 1 January 2011, a new contractual early retirement plan (AFP) pension scheme was introduced in Norway Unlike the old scheme, the new AFP plan is not an early retirement plan, but a scheme that provides a lifelong supplement to the ordinary pension. Employees can choose to take out the new AFP pension as from the age of 62, also while continuing to work, and add additional earnings by working up to the age of 67. This new AFP plan is a defined benefit multi-enterprise pension scheme, and is financed through premiums that are set as a percentage of salary. So far no reliable measurement and allocation of obligations and assets is available for the plan. In accounting terms, the plan is treated as a defined-contribution pension plan in which premium payments are charged as current costs and no provisions are made in the financial statements. In 2016 and 2017, the current premium payments were set at 2.50 per cent of total salary payments between 1 G and 7.1 G to the company's employees. It has been decided not to change the premium payments for 2018. There is no accumulation of funds in the plan and it is expected that the premium level will increase over the coming years.

There are some seniority requirements associated with the new AFP plan with regard to accumulated length of employment in the scheme. This means that on reaching the age of 62, the individual employee must have been employed for seven of the previous nine years in order to meet the seniority requirements to be able to draw an AFP pension under the new scheme. For the Arcus Group there were 17 individuals who did not fulfil this seniority requirement on the introduction of the new AFP plan. In 2011, Arcus applied for these individuals to have their accumulated period of employment in the old AFP plan in SPK included before transition to the LO/NHO (Norwegian Confederation of Trade Unions/ Confederation of Norwegian Enterprise) plan from 1 January 2009. Fellesordningen (Joint Pension Plan) gave its consent to this in return for Arcus paying the entire excess above and beyond the state supplement of 1/3 of the AFP pension. As at 31.12.2017, this relates to a residual obligation for seven people and the obligation is recognised at NOK 5.2 million.

Defined contribution pension

The Arcus Group's general pension scheme for all other employees concerns defined-contribution pension schemes which are adapted to the regulations in the individual countries in which the Group has employees.

Norway

The general defined-contribution pension scheme has contribution rates of 5 per cent of salary in the bracket from 0 to 7.1 times the National Insurance basic amount (G); and 11 per cent of salary in the bracket from 7.1 to 12 times the National Insurance basic amount (G). In addition, there is a private disability plan with a 66 per cent benefit level, without free policy accumulation. The child and dependent supplement to Arcus' group life plan is a replacement for the previous spouse and child pension.

The costs associated with the defined contribution pension are related to the current premium invoices from the insurance company with which Arcus has signed a defined contribution pension agreement. The current defined contribution pensions and disability pensions for employees in the defined contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined contribution plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised obligation related to this was NOK 3.2 million at the end of 2017.

Sweden

In Sweden, the contributions are, to a great extent, individually agreed contribution rates based on individual salaries, and these can vary considerably. In 2017, the contribution rates vary between 9 per cent and 34 per cent of the individual's salary. The contribution rates apply as from the first krone earned.

Denmark

The general defined-contribution pension scheme in Denmark has contribution rates varying from 8 to 10 per cent. The contribution rates apply as from the first krone earned.

Finland

The general defined-contribution pension scheme in Finland has contribution rates of 18.95 per cent for employees aged below 53, and 17.45 per cent for employees aged over 53.

Germany

The contribution rate in Germany is 9.35 per cent of the employee's salary, up to the maximum calculation basis of EUR 76,200.

Other matters

The Group applies a discount rate equivalent to the covered bond interest rate to its pension commitments. The pension assumptions made by the Group are consistent with the recommendations of the Accounting Standards Board from September 2017. Due to the lack of significance, the assumptions were not updated as of 31.12.2017.

The table below shows both defined benefit and other pension obligations based on actuarial assumptions.

Figures in NOK 1,000

Pension costs	**2017**	**2016**
Present value of pension earnings for the year	778	1,053
Interest cost of pension obligations	890	953
Return on pension assets	-215	-252
Administration costs	174	173
Recognised estimation loss/(profit)	0	-736
Accrued social security contributions	218	262
Net pension costs after social security contributions	**1,845**	**1,453**
Defined contribution pension plan		
Recognised contributions excluding social security contributions	30,561	26,944
Net pension obligations		
Estimated accrued obligations, funded pension plans	14,436	13,707
Estimated value of pension assets	-10,328	-9,741
Net estimated pension obligations (-)/assets (+), funded pension plans	**4,108**	**3,966**
Estimated accrued obligations, non-funded pension plans	26,444	30,126
Net pension assets/(obligations) recognised in the statement of financial position	**30,552**	**34,092**
Changes in obligations		
Net pension obligations 01.01	34,092	35,902
Pension costs, continued operations	1,845	1,453
Paid out through operations	-743	-4,071
Premium payments including SSC	-204	-471
Estimate deviations recognised directly in equity (IAS19R)	-4,438	1,279
Net pension obligations 31.12.	**30,552**	**34,092**
Summary of pension assets:		
Shares and other equity instruments	10,328	9,741
Total pension assets 31.12.	**10,328**	**9,741**

Figures in NOK 1,000

Financial assumptions	**2017**	**2016**
Discount rate	2.30%	2.10%
Expected salary adjustment	2.50%	2.25%
Expected pension increase	1.50%	1.25%
Expected adjustment of the National Insurance basic amount (G)	2.25%	2.00%
Expected return on pension assets	2.30%	2.10%
Actuarial and demographic assumptions		
Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

Sensitivity analysis of net pension obligations:
The table below shows the effects of changes in pension obligations, deferred tax assets and equity in the event of a change in the most important economic assumptions by one percentage point up or down. The calculations are otherwise carried out in the same way as the actuarial calculations and are based on all other economic and demographic assumptions remaining unchanged.

Sensitivity 2017	Discount rate		Salary growth		Adjustment of NI basic amount (G)	
Change in percentage points	**1%**	**-1%**	**1%**	**-1%**	**1%**	**-1%**
Change in pension obligations	-3,116	3,697	6,019	-4,980	-2,566	2,597
Change in deferred tax assets	717	-850	-1,384	1,145	590	-597
Change in equity	2,400	-2,847	-4,634	3,835	1,976	-2,000
Percentage change in obligations	**-10.2%**	**12.1%**	**19.7%**	**-16.3%**	**-8.4%**	**8.5%**

Sensitivity 2016	Discount rate		Salary growth		Adjustment of NI basic amount (G)	
Change in percentage points	**1%**	**-1%**	**1%**	**-1%**	**1%**	**-1%**
Change in pension obligations	-3,477	4,125	6,716	-5,557	-2,864	2,898
Change in deferred tax assets	835	-990	-1,612	1,334	687	-695
Change in equity	2,643	-3,135	-5,104	4,223	2,176	-2,202
Percentage change in obligations	**-10.2%**	**12.1%**	**19.7%**	**-16.3%**	**-8.4%**	**8.5%**

Summary of cash flows related to pension plans

Figures in NOK 1,000	**2017**	**2016**
Premium payments, Storebrand defined benefit plan recognised in the statement of financial position	204	425
Payments from operations, gift pension at 65-67 years of age	743	566
Payments under unfunded pension to former CEO recognised in the statement of financial position	0	3,316
Premium payments, AFP plan not recognised in the statement of financial position	4,069	4,165
Premium payments, remaining in SPK	72	66
Premium payments, defined contribution pension	29,240	25,404
Total	**34,328**	**33,942**

All figures include social security costs

Premium payments associated with ordinary defined-contribution pension schemes are the largest disbursement items associated with pensions. The basis for the premium payments to the defined contribution plan is calculated according to the actual salaries and will reflect the salary development within the company.

Premium payments to the new AFP plan are also calculated on the basis of actual salaries, in addition to how the premium rate is expected to increase in the years ahead. The premium rate was 2.50 per cent in 2016 and 2017 and this will remain unchanged in 2018.

NOTE 11 FINANCIAL INCOME AND COSTS

Figures in NOK 1,000	**2017**	**2016**
Financial income		
External interest income	6,654	7,944
Total interest income	**6,654**	**7,944**
Value adjustment of interest rate swap agreements at fair value	0	4,552
Value adjustment of foreign exchange forward contracts at fair value	1,837	0
Value adjustment of co-investment programme (synthetic shares and options)	13,821	0
Net agio gains	2,854	5,848
Other financial income	731	19
Total other financial income	**19,243**	**10,419**
Total financial income	**25,897**	**18,363**
Financial costs		
Interest costs to financial institutions	-31,454	-70,158
Interest costs on liabilities at fair value	-21	-256
Total interest costs	**-31,475**	**-70,414**
Value adjustment of minority options at fair value	-147	-28,180
Value adjustment of foreign exchange forward contracts at fair value	0	-2,021
Value adjustment of co-investment programme (synthetic shares and options)	0	-119,979
Amortisation of front-end fee related to credit facilities at SEB	-1,652	-20,636
Other financial costs	-7,166	-13,861
Total other financial costs	**-8,965**	**-184,677**
Total financial costs	**-40,440**	**-255,091**
Net financial profit/loss	**-14,543**	**-236,728**

NOTE 12 TAX

Tax for the year is calculated as follows:

Figures in NOK 1,000	**2017**	**2016**
Tax payable	-37,463	-40,670
Change in deferred tax	-34,306	10,590
Insufficient provision in previous years	1,241	3,869
Total tax cost	**-70,528**	**-26,211**

Tax breakdown by country	**2017**	**2016**
Tax - Norway	-34,883	6,498
Tax - Sweden	-26,194	-25,545
Tax - Denmark	-7,343	-6,094
Tax - Finland	-2,220	-1,841
Tax - Germany	112	771
Total tax cost	**-70,528**	**-26,211**

Reconciliation from nominal to actual tax rates	**2017**	**2016**
Pre-tax profit	258,750	2,122
Expected income tax at the nominal tax rate in Norway	-62,100	-531
Tax effect of the following items:		
Non-deductible costs	-7,638	-26,831
Non-taxable income	33	0
Insufficient provision in previous years	1,241	2,171
Change in non-capitalised tax assets	213	0
Change in tax rate	-4,859	-5,789
Differences in tax rates	3,366	4,554
Profit share, associated companies	789	1,447
Other	-1,573	-1,232
Tax	**-70,528**	**-26,211**
Effective tax rate	**27%**	**1235%**

Tax on items in OCI
Tax on items in OCI are entirely due to changes in deferred tax associated with pension obligations in Norway.

Tax payable by country in the statement of financial position	**2017**	**2016**
Tax liability to Norway	1,907	1,704
Tax liability to Sweden	-5,336	-9,815
Tax liability to Denmark	5,451	4,862
Tax liability to Finland	382	-80
Tax liability to Germany	-276	373
Total tax liabilities payable, see also Note 17	**2,128**	**-2,956**

Tax paid during the period, per country	**2017**	**2016**
Tax paid to Norway	-896	-5,686
Tax paid to Sweden	-22,412	-26,200
Tax paid to Denmark	-7,510	-12,760
Tax paid to Finland	-1,851	-2,556
Tax paid to Germany	-552	491
Total tax paid	**-33,221**	**-46,711**

Specification of tax effect of temporary differences and deficit carried forward:

	2017		2016	
	Asset	**Liability**	**Asset**	**Liability**
Tangible assets	-3,093	532	37	667
Intangible fixed assets	-45,585	-101,588	-47,905	-93,848
Financial assets	-931	0	-717	0
Inventories	-10,271	0	-8,536	338
Trade receivables	1,545	0	1,539	215
Pension obligations	6,604	0	7,833	0
Provisions	5,781	0	10,437	0
Gain/loss tax fund from sale of fixed assets	-864	24	-1,127	0
Deficit carried forward	183,600	0	210,559	0
Total deferred tax, gross	**136,786**	**-101,032**	**172,120**	**-92,628**
Unrecognised deferred tax assets	0	0	0	0
Net deferred tax in the statement of financial position	**136,786**	**-101,032**	**172,120**	**-92,628**

At the end of the year, the Group had NOK 183.6 million in capitalised deferred tax assets associated with the deficit carried forward. Based on an assessment and analysis of the Group's earnings in Norway historically, and the future prognosis, it is assessed that the deficit carried forward can be utilised in full, and the related deferred tax asset has therefore been entered.

Deferred tax positions are calculated on the basis of local tax rates in the respective countries on the reporting date. At the end of 2017, the rates were 23 per cent in Norway, 22 per cent in Sweden, 22 per cent in Denmark and 20 per cent in Finland.

At the end of 2017, deferred tax assets were associated with net negative temporary differences for the tax regimes in Norway and Sweden, while deferred tax liabilities were linked to net positive temporary differences for the tax regime in Denmark. At the end of 2016, deferred tax assets were associated with net negative temporary differences for the tax regime in Norway, while deferred tax liabilities were linked to net positive temporary differences for the tax regimes in Denmark and Sweden.

NOTE 13 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

2017

Figures in NOK 1,000	Company type	Ownership interest	Book value 01.01.2017	Buy/sell/ issue	Share of profit for the year	Dividend	Translation differences	Book value 31.12.2017
Tiffon SA *	TS	34.8%	48,029	454	3,286	0	6,901	58,670
Det Danske Spiritus Kompagni A/S **	FKV		8,782	-8,782	0	0	0	0
Total investments in associated companies and jointly controlled entities			**56,811**	**-8,328**	**3,286**	**0**	**6,901**	**58,670**

2016

Figures in NOK 1,000	Company type	Ownership interest	Book value 1.1.2016	Buy/sell/ issue	Share of profit for the year	Dividend	Translation differences	Book value 31.12.2016
Tiffon SA *	TS	34.0%	46,280	0	1,749	0	0	48,029
Det Danske Spiritus Kompagni A/S **	FKV	50.0%	8,439	0	4,040	-2,946	-751	8,782
Total investments in associated companies and jointly controlled entities			**54,719**	**0**	**5,789**	**-2,946**	**-751**	**56,811**

* The Group buys Cognac from Tiffon SA, see detailed information on these transactions with associates in Note 6. In September 2017, Arcus acquired a further 0.75 per cent ownership interest in the company, and at the end of the year has an ownership interest of 34.75 per cent. Tiffon SA has a financial year from 1 July to 30 June. The share of profit from Tiffon is based on an estimated annual profit for the calendar year that is equivalent to the Group's financial year.

** Det Danske Spiritus Kompagni A/S was established in 2013 to handle sales of Arcus products in Denmark, and was owned jointly with Flemming Karberg Familieholding ApS. In January 2017, the Arcus Group acquired the rest of the shares in the company, and as from this date the company is recognised as a wholly-owned subsidiary, and consolidated in the consolidated accounts. Prior to the acquisition, both ownership and voting shares, as well as Board composition, were divided 50/50 between Arcus and Flemming Karberg Familieholding ApS. See detailed information on transactions with related parties in Note 6.

None of the associated companies or jointly controlled entities has listed share prices. The Group's share of profit from associated companies, after tax, is presented on a separate line before Group operating profit.

Summarised financial information regarding associated companies and jointly controlled entities, based on 100 per cent:

2017

Figures in NOK 1,000	Total current assets 31.12.2017	Total fixed assets 31.12.2017	Total current liabilities 31.12.2017	Total non-current liabilities 31.12.2017	Total equity 31.12.2017	Operating revenues 2017	Operating expenses 2017	Profit for the year 2017
Tiffon SA	329,085	16,933	33,193	144,009	168,815	101,248	82,784	9,457

2016

Figures in NOK 1,000	Total current assets 31.12.2016	Total fixed assets 31.12.2016	Total current liabilities 31.12.2016	Total non-current liabilities 31.12.2016	Total equity 31.12.2016	Operating revenues 2016	Operating expenses 2016	Profit for the year 2016
Tiffon SA	301,695	16,390	35,031	136,547	146,507	107,964	96,067	5,145
Det Danske Spiritus Kompagni A/S*	68,815	21	52,950	0	15,886	161,188	150,827	8,081

* As a consequence of both ownership and voting rights being divided 50/50 between the owners, the Group was not deemed to have control of DDSK A/S at the end of 2016. DDSK A/S was therefore not consolidated in the Group's accounts before the acquisition of the remaining 50 per cent in 2017.

NOTE 14 TANGIBLE FIXED ASSETS

Figures in NOK 1,000	Land, buildings and other real estate	Machinery and equipment	Fixtures and fittings, tools, office equipment etc.	Assets under construction	Total tangible assets
Acquisition cost as at 01.01.2016	**0**	**500,992**	**86,364**	**67,417**	**654,773**
Addition of tangible fixed assets	0	7,992	1,445	1,945	**11,382**
Transferred from facilities under construction	0	62,645	0	-66,630	**-3,985**
Reclassifications	0	0	-1,297	0	**-1,297**
Translation differences	0	-309	-809	0	**-1,118**
Acquisition cost as at 01.01.2017	**0**	**571,320**	**85,703**	**2,732**	**659,755**
Addition of tangible fixed assets	0	5,320	2,857	7,717	**15,894**
Transferred from facilities under construction	0	2,693	290	-4,771	**-1,788**
Disposal at cost (sale of tangible fixed assets)	0	-30,643	-358	0	**-31,001**
Translation differences	0	185	524	0	**709**
Acquisition cost 01.01.2017	**0**	**548,875**	**89,016**	**5,678**	**643,569**
Accumulated depreciation 01.01.2016	**0**	**-216,117**	**-60,764**	**0**	**-276,881**
Ordinary depreciation	0	-29,355	-5,529	0	**-34,884**
Reclassifications	0	0	1,297	0	**1,297**
Translation differences	0	201	747	0	**948**
Accumulated depreciation 01.01.2017	**0**	**-245,271**	**-64,249**	**0**	**-309,520**
Ordinary depreciation	0	-29,567	-5,009	0	**-34,576**
Disposal, accumulated depreciation (sale of tangible fixed assets)	0	30,643	358	0	**31,001**
Translation differences	0	-146	-502	0	**-648**
Accumulated depreciation 31.12.2017	**0**	**-244,341**	**-69,402**	**0**	**-313,743**
Book value as at 31.12.17	**0**	**304,534**	**19,614**	**5,678**	**329,826**
Of which book value of capitalised leases	0	176,697	0	0	**176,697**
Ordinary depreciation for the year – capitalised leases	0	-16,385	0	0	**-16,385**
Book value of capitalised interest costs	0	3,291	0	0	**3,291**
Annual leasing fee for non-capitalised tangible fixed assets	83,928	2,309	463	0	**93,739**

Both the parent company and the Group use straight-line depreciation for all tangible fixed assets.

The economic life of tangible fixed assets is estimated as follows:

* Machines, vehicles and plant	3-15 years
* Office machinery and inventory	4-10 years
* Land, buildings and other real estate	0 years

No indications of impairment or a need to adjust the useful lives of assets were identified during the period.

NOTE 15 INTANGIBLE ASSETS

Figures in NOK 1,000	Goodwill	Brands	Software	Total
Acquisition cost 01.01.2016	**1,042,182**	**706,257**	**111,969**	**1,860,408**
Addition of intangible assets	0	32,647	3,782	**36,429**
Transferred from facilities under construction	0	0	3,985	**3,985**
Translation differences	-32,006	-23,572	0	**-55,578**
Acquisition cost 01.01.2017	**1,010,176**	**715,332**	**119,736**	**1,845,244**
Addition of intangible assets	0	118,611	6,209	**124,820**
Transferred from facilities under construction	0	0	1,788	**1,788**
Acquisition of business	16,583	3,900	0	**20,483**
Translation differences	38,537	35,403	136	**74,076**
Acquisition cost 31.12.2017	**1,065,296**	**873,246**	**127,869**	**2,066,411**
Accumulated depreciation 01.01.2016	**0**	**-40,568**	**-77,927**	**-118,495**
Ordinary depreciation	0	0	-11,158	**-11,158**
Amortisation	0	-5,583	0	**-5,583**
Translation differences	0	56	0	**56**
Accumulated depreciation 01.01.2017	**0**	**-46,095**	**-89,085**	**-135,180**
Ordinary depreciation	0	0	-9,621	**-9,621**
Amortisation	0	-7,396	0	**-7,396**
Write-downs	-22,700	0	0	**-22,700**
Translation differences	0	-53	-12	**-65**
Accumulated depreciation 31.12.2017	**-22,700**	**-53,544**	**-98,718**	**-174,962**
Book value 31.12.2017	**1,042,596**	**819,702**	**29,151**	**1,891,449**
Of which capitalised value of assets with indefinite useful lives	1,042,596	780,288	0	**1,822,884**
Economic life of intangible assets with identifiable useful lives		10-19 years	3-10 years	
Depreciation plan		Straight line	Straight line	

Addition of brands

Vanlig

In October 2017, the Group acquired the Vanlig brand, which includes a vodka and a gin product, from Svensk Vodka Export AB in Sweden. The Group took over sales of these products as from 1 October 2017, while production will be taken over during Q2 2018.

Hot n'Sweet

At the end of December 2017, the Group acquired the Hot n'Sweet brand from Strandgaarden Wine & Spirits A/S in Denmark. Hot n'Sweet is a liqueur with a flavour characterised by Turkish pepper candy. The Group took over sales of this product as from 1 January 2018, while production will be taken over during Q1 2018.

Impairment testing

Goodwill is allocated to the Group's cash-generating units and is tested for impairment annually, or more often if there are indicators that the values may have been subject to impairment. Testing for impairment involves determining the recoverable amount for the cash-generating unit. The recoverable amount is determined by discounting expected cash flows, based on the cash-generating entity's Board-approved business plans. The cash-generating entity is the lowest level at which it is possible to follow up operations comprising the relevant goodwill. At the end of 2017, cash-generating units relating to impairment testing of goodwill are defined both at the company and business area levels. The same is carried out for brands with indefinite useful lives. The cash-generating unit for impairment testing of brands is the brand itself.

The discount rate used for both brands and goodwill is 9.0 per cent before tax, and reflects estimated risk and capital costs for the Group, based on a capital structure considered representative for the activities in which the Arcus Group is engaged.

Recoverable amount in an impairment test of goodwill

The recoverable amount for the cash-generating units is calculated on the basis of the present value estimate of the expected cash flows before tax. The cash flows used as the basis for the impairment test are based on assumptions about future sales volume, sales prices, purchase prices for input factors, salary development and other direct costs set out in Board-approved budgets and long-term plans. The terminal value is based on the cash flow in the last forecast year (2020). The growth assumption in the terminal value is set to inflation only (no real growth) and level of reinvestments are expected to be the same as depreciation of the entities' fixed assets.

CGU related to goodwill from the acquisition of the production activity in Denmark is assessed to be the entire Spirits segment since, as from 2015, the business in Denmark was integrated with other spirits operations in the Group.

In 2017 the Group wrote down goodwill related to the acquisition of Excellars AS in 2011. The recoverable amount on impairment testing of goodwill in Excellars is based on the 2018 budget, with growth of 2 per cent (inflation) up to 2021 in both revenue and EBITDA, which gives somewhat higher growth in the EBITDA margin during the period. This growth is also applied to the terminal value. On the basis of the impairment tests performed, the Group has recognised impairment of goodwill amounting to TNOK 22,700. This impairment is a consequence of weaker development in the company's results. To some extent, the company's earnings have been dependent on revenue from wines with a high sugar content. This is a wine segment that has enjoyed longstanding popularity in Norway, but for which demand has declined significantly, especially during the past year. Any negative change in the assumptions applied to the calculation of the recoverable amount may lead to further impairment. The management is working on new strategy plans to achieve a turnaround for the company, so that the Group avoids further impairment.

Concerning other goodwill in the Group, the impairment tests have not entailed impairment, and downward adjustment of the estimated cash flows by 20 per cent, or an increase in the discount rate by 2 per cent, would not have entailed impairment of other goodwill either.

Recoverable amount in an impairment test of brands

The recoverable amount for the brands is calculated on the basis of a "relief from royalty" method before taxes, where the brand's annual royalty is estimated as future revenues of the brand multiplied by a long-term expected profit level for the relevant brands. Cash flow estimates used are discounted using a discount rate.

Downward adjustment of the estimated cash flows by 20 per cent, or an increase in the discount rate by 2 per cent, would not have entailed impairment for any of the brands.

The table below shows the Group's intangible assets with indefinite useful lives (goodwill and brands) by cash-generating unit. The most important brands are presented individually, while less important brands are presented under other brands.

Figures in NOK 1,000	Category	Currency	Segment	Goodwill	Brands	Total
Cash-generating unit						
Norwegian aquavits	Aquavit	DKK	Spirits	0	119,846	**119,846**
Danish aquavits	Aquavit	NOK	Spirits	0	291,082	**291,082**
Other aquavits	Aquavit	NOK, DKK, SEK	Spirits	0	165,729	**165,729**
Danish bitters	Bitter dram	NOK	Spirits	0	9,262	**9,262**
Norwegian cognac	Cognac	NOK	Spirits	0	17,585	**17,585**
Norwegian vodka	Vodka	NOK	Spirits	0	35,104	**35,104**
International vodka	Vodka	NOK	Spirits	0	68,200	**68,200**
Agency wine	Agency wine	NOK	Wine	0	5,024	**5,024**
Other brands	Other	NOK, DKK	Spirits	0	107,870	**107,870**
Spirits segment		DKK	Spirits	424,186	0	**424,186**
Spirits segment		NOK	Spirits	381,346	0	**381,346**
Vingruppen i Norden AB (sub-Group)		SEK	Wine	95,852	0	**95,852**
Social Wines OY		EUR	Wine	25,994	0	**25,994**
Excellars AS		NOK	Wine	115,218	0	**115,218**
Total				**1,042,596**	**819,702**	**1,862,298**

The various cash-generating entities listed below include the following known brands:

Cash-generating unit	Brands
Norwegian aquavits	Lysholm Linie, Løiten Linie, Gammel Opland and Gilde, and other Norwegian aquavits
Danish aquavits	Aalborg
Other aquavits	Malteserkreutz and Snälleröds
Danish bitters	Gammel Dansk
Norwegian cognac	Braastad cognac
Norwegian vodka	Vikingfjord, Amundsen and Brennevin Seksti
International vodka	Vanlig, Dworek, Hammer, Kalinka and Dobra
Agency wine	Doppio Passo and Pietro de Campo
Other brands	Hot n'Sweet, Dooley's, Eau de Vie, Golden Cock, St. Hallvard, Upper Ten, Dry Anis and Star Gin

NOTE 16 LEASING AGREEMENTS

Operational leasing
As at 31 December 2017, the Group had the following leasing agreements which are defined and recognised as operational leasing agreements. There were no significant terms and conditions concerning sub-letting, purchase, escalation or restrictions to the operational leasing agreements as at 31 December 2017.

Figures in nominal NOK 1,000	Annual leasing cost	Due date within 1 year	Due date 2-5 years	Due date after more than 5 years	Total
Leased premises	83,928	83,659	331,851	1,216,118	**1,636,628**
Vehicles	2,309	2,265	2,497	0	**4,762**
Machines and office equipment	463	463	471	0	**934**
Total	**86,700**	**86,387**	**334,819**	**1,216,118**	**1,642,324**

This overview includes the agreement concluded with Gjelleråsen Eiendom AS on the lease of production, distribution and administration buildings at Gjelleråsen for a term of 25 years starting on 1 January 2012. The annual rent under this agreement is TNOK 80,132 as from 2018.

Financial leasing
As at 31 December 2017, the Group had four contracts to lease equipment used at Gjelleråsen. All of the above agreements took effect on 1 June 2012 and have a duration of 15 years. This equipment was recognised in the Arcus Group's statement of financial position as at 31.12.2017.

Figures in nominal NOK 1,000	Annually Lease amount	Due date within 1 year	Due date 2-5 years	Due date after more than 5 years	Total
Machinery and equipment	21,687	21,687	173,203	0	**194,890**
Total	**21,687**	**21,687**	**173,203**	**0**	**194,890**

The contract partner for the financial leasing agreements is Nordea, and the agreements are subject to variable interest rates.

Even though, in principle, the leasing agreements have been entered into with a 15-year repayment and interest profile (annuity), the terms of the agreements are for a shorter period of time. Remaining capitalised lease liabilities will fall due in the course of the last 12 months of the agreement period. The Group and Nordea are in continuous dialogue concerning an extension of the agreements to a total maturity profile of 15 years. All changes to the agreements must be formally handled by the landlord.

The present value of future lease payments is NOK 180,3 million as at 31.12.2017, based on a discount rate equivalent to the effective interest rate on the financing in 2017.

Arcus-Gruppen AS has pledged a 100 per cent surety guarantee for all liabilities that the subsidiaries have undertaken or may undertake in connection with the signed leasing agreements. All fixed assets are included in the pledged assets as security for the Arcus Group's non-current bank financing; see Note 25.

NOTE 17 OTHER RECEIVABLES

Figures in NOK 1,000	Note	2017	2016
Non-current receivables			
Other non-current receivables		1,205	1,235
Total other non-current receivables		**1,205**	**1,235**

The Group has no receivables with a term of more than five years.

Figures in NOK 1,000	Note	2017	2016
Current receivables			
Prepaid costs*		14,920	11,052
Prepaid tax	11	0	2,956
Fair value of forward contracts		993	0
Other current receivables*		6,412	5,104
Total other current receivables		**22,325**	**19,112**

Figures in NOK 1,000	2017	2016
Prepayments to suppliers		
Nominal prepayments to suppliers	70,755	68,480
Provisions	-6,185	-5,670
Total prepayments to suppliers*	**64,570**	**62,810**

Through its distribution business, Vectura purchases goods on behalf of agents and importers. Depending on the type of agreement entered into by the agent or importer, there will be instances where Vectura buys in goods on behalf of the agent or importer and where the agent or importer bears most of the risk associated with this inventory. This type of financing of inventory for individual partners is stated at nominal value less provision for expected losses, and is presented as prepayments to suppliers.

* Items included in changes in working capital in Note 3.

NOTE 18 INVENTORIES

Figures in NOK 1,000	2017	2016
Raw materials	22,709	22,891
Goods in progress	99,629	101,797
Finished goods/goods for resale	310,111	273,719
Obsolescence provision	(21,690)	(19,630)
Total inventories	**410,759**	**378,777**

Cost of inventories in the statement of income comprises input costs for finished goods/goods for resale and production value at cost price for goods produced in-house. The total cost of inventories was NOK 1,409 million in 2017 (2016: NOK 1,467 million).

See also Note 25 for details of pledges and guarantees.

NOTE 19 CASH AND CASH EQUIVALENTS

Figures in NOK 1,000	2017	2016
Cash and cash equivalents in the Group's cash pool system	0	100,731
Other bank deposits	184,402	98,654
Cash holdings	13	0
Total cash and cash equivalents	**184,415**	**199,385**
Available drawing rights	604,982	601,897
Utilised drawing rights	-72,700	0
Available liquidity	**716,697**	**801,282**

Figures in NOK 1,000	2017	2016
Restricted bank deposits		
Restricted bank deposits	531	0
Total restricted bank deposits	**531**	**0**

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes all subsidiaries, with the exception of the companies included in the wine activities in Sweden and Finland, and Det Danske Spiritus Kompagni A/S. At the end of 2017, this Group cash pool system was managed by the parent company, Arcus ASA.

The joint overdraft limit in the Group cash pool system is TNOK 600,000. The total drawing on the Group cash pool system as at 31 December 2017 amounts to TNOK 72,700, while at the end of 2016 the Group had deposit of TNOK 100,731. The parent company, Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

In addition, the subsidiary group Vingruppen i Norden AB has a separate overdraft arrangement in Sweden, with a maximum credit facility of TSEK 4,000 (TNOK 3,997); and in Finland with a maximum credit facility of TEUR 100 (TNOK 985) at the end of 2017. There was no drawing on these entitlements at the end of 2017.

The Group's exposure to interest rate risk is stated in Note 2.

Summary of bank guarantees as at 31 December:

Figures in NOK 1,000	2017	2016
Bank guarantees for tax deduction funds	30,549	37,732
Bank guarantees for customs and duty credit facilities	22,246	13,899
Other bank guarantees	369	0
Total bank guarantees	**53,164**	**51,631**

NOTE 20 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
31.12.15		1,000,000	1.00	1,000
20.10.16	Split 1:50	50,000,000	0.02	1,000
01.12.16	Share issue	68,023,255	0.02	1,360
31.12.17		68,023,255	0.02	1,360

20 largest shareholders as at 31.12.2017:

		Number of shares	Ownership and voting rights
Canica AS		22,670,000	33.3%
Geveran Trading Co Ltd		6,750,000	9.9%
Verdipapirfondet DNB Norge (IV)		3,577,915	5.3%
Hoff SA		3,297,000	4.8%
Sundt AS		3,234,957	4.8%
Folketrygdfondet		1,800,000	2.6%
Danske Invest Norske Instit. II.		1,725,100	2.5%
KLP Aksjenorge		1,266,494	1.9%
Verdipapirfondet DNB Norden (III)		1,222,178	1.8%
Centra Invest AS		1,169,846	1.7%
Holta Invest AS		1,000,000	1.5%
Ilmarinen Mutual Pens Ins Comp		1,000,000	1.5%
Verdipapirfondet DNB Norge Selektiv		936,616	1.4%
Goldman Sachs International	NOM	900,000	1.3%
Skandinaviska Enskilda Banken AB (A/C SEB AIF - Swedish Residents)	NOM	862,000	1.3%
Danske Invest Norske Aksjer Inst		855,400	1.3%
Landkreditt dividend		850,000	1.2%
Kommunal Landspensjonskasse		809,707	1.2%
Skandinaviska Enskilda Banken AB (A/C clients account)	NOM	795,113	1.2%
Citibank Europe Plc	NOM	794,127	1.2%
Other shareholders		12,506,802	18.4%
Total		**68,023,255**	**100.0%**

Shareholdings of the Group Management as at 31.12.2017:

	Number of shares	Ownership and voting rights
Kenneth Hamnes[1]	126,499	0.2%
Sigmund Toth	19,767	0.0%
Erik Bern	20,233	0.0%
Bjørn Delbæk[2]	22,705	0.0%
Per Bjørkum	16,511	0.0%
Erlend Stefansson	54,124	0.1%
Thomas Patay	110,156	0.2%
Christian Granlund	2,822	0.0%
Claes Lindquist	46,726	0.1%
Total shareholdings of the Group Management	**419,543**	**0.6%**

1. The shareholding is held via Ekelyveien AS
2. Of the holdings, 5,000 shares are held via Oso Consulting AS

Dividend and Group contributions

The Board of Directors proposes dividend distribution of NOK 1.66 per share for 2017 (2016 NOK 1.47 per share).

Earnings per share

Earnings per share is calculated on the basis of the profit for the year attributable to the shareholders in the parent company divided by a weighted average of the number of outstanding ordinary shares for the year, reduced for ordinary shares bought by the company and held as own shares.

The Arcus Group has an sharebased incentive schemes for senior executives under which externally owned shares can be diluted by issuing matching shares. To take account of this future increase in the number of shares, diluted earnings per share are also calculated, which takes account of a weighted average for the year of the estimated number of matching shares and options.

Earnings per share:	2017	2016
Profit for the year	188,227	-24,089
Profit for the year attributable to non-controlling interests	6,944	10,480
Profit for the year to the owners of the parent company	**181,283**	**-34,569**
Comprehensive income	264,803	-64,290
Comprehensive income attributable to non-controlling interests	8,127	7,703
Comprehensive income to the owners of the parent company	**256,681**	**-71,993**
Weighted average of the number of outstanding shares	68,023,255	51,501,938
Dilution effect from option scheme	893,730	0
Dilution effects from matching shares	368,274	31,730
Weighted average of the number of outstanding shares – diluted	**69,285,259**	**51,533,668**
Earnings per share in NOK	2.66	-0.67
Diluted earnings per share in NOK	2.62	-0.67
Comprehensive income per share in NOK	3.77	-1.40
Diluted comprehensive income per share in NOK	3.70	-1.40

NOTE 21 DEBT TO FINANCIAL INSTITUTIONS

Figures in NOK 1,000	Type of financing	Currency	Interest rate profile	Loan amount in foreign currency 31.12.2016	Loan amount in NOK 31.12.2017	Loan amount in NOK 31.12.2016
SEB	Mortgage loan	SEK	Variable	750,000	749,400	711,300
SEB	Overdraft facility	NOK	Variable	72,700	72,700	0
Nordea	Financial leasing	NOK	Variable	183,766	183,766	199,485
Total debt to financial institutions					**1,005,866**	**910,785**
Capitalised front-end fees					-6,577	-8,032
Book value of debt to financial institutions					**999,289**	**902,753**

Term structure	Type of financing	Currency	Maturity 2018	Maturity 2019	Maturity 2020	Maturity 2021 or later	Total
SEB	Mortgage loan	SEK	0	0	0	749,400	749,400
SEB	Overdraft facility	NOK	72,700	0	0	0	72,700
Nordea **	Financial leasing	NOK	17,371	17,804	101,796	46,795	183,766
Total debt to financial institutions*			**90,071**	**17,804**	**101,796**	**796,195**	**1,005,866**

Reconciliation of interest-bearing debt on 31.12.2017

		Cash flow 2017		Without cash flow 2017				
Figures in NOK 1,000	Book value 31.12.2016	Raised	Repayment	Amortisation front-end fee	Reclassification	Acquisition/sale of companies	Translation differences	Book value 31.12.2017
Non-current debt								
Mortgage loan	703,268	0	0	1,652	0	0	37,903	**742,823**
Financial leasing	182,987	0	0	0	-16,592	0	0	**166,395**
Total non-current interest-bearing debt	**886,255**	**0**	**0**	**1,652**	**-16,592**	**0**	**37,903**	**909,218**
Current debt								
Mortgage loan	0	0	0	0	0	0	0	**0**
Financial leasing	16,498	0	-15,719	0	16,592	0	0	**17,371**
Overdraft facility	0	72,700	0	0	0	0	0	**72,700**
Total current interest-bearing debt	**16,498**	**72,700**	**-15,719**	**0**	**16,592**	**0**	**0**	**90,071**
Total interest-bearing debt	**902,753**	**72,700**	**-15,719**	**1,652**	**0**	**0**	**37,903**	**999,289**

Reconciliation of interest-bearing debt, 31.12.2016

		Cash flow 2016		Without cash flow 2016				
Figures in NOK 1,000	Book value 31.12.2015	Raised	Repayment	Amortisation of front-end fee	Reclassification	Acquisition/sale of companies	Translation differences	Book value 31.12.2016
Non-current debt								
Mortgage loan	833,305	802,632	-908,130	20,636	0	0	-45,175	**703,268**
Financial leasing	200,181	0	0	0	-17,194	0	0	**182,987**
Total non-current interest-bearing debt	**1,033,486**	**802,632**	**-908,130**	**20,636**	**-17,194**	**0**	**-45,175**	**886,255**
Current debt								
Mortgage loan	156,849	0	-156,849	0	0	0	0	**0**
Financial leasing	15,373	0	-16,069	0	17,194	0	0	**16,498**
Overdraft facility	0	0	0	0	0	0	0	**0**
Total current interest-bearing debt	**172,222**	**0**	**-172,918**	**0**	**17,194**	**0**	**0**	**16,498**
Total interest-bearing debt	**1,205,708**	**802,632**	**-1,081,048**	**20,636**	**0**	**0**	**-45,175**	**902,753**

In connection with the IPO in 2016, the Group refinanced its non-current loans in SEB. In this connection the entire original mortgage loan, denominated in NOK and SEK, was redeemed, while the entire new loan was denominated in SEK.

The non-current mortgage loan is legally placed in the subsidiary VinGruppen Sweden Holding AB in Stockholm, and falls due in its entirety at the end of 2021.

After the refinancing in 2016, the Group has not hedged interest rates. The previous interest hedging agreement entailed a positive value change of TNOK 4,552 in 2016, but led to a non-recurring payment of TNOK -12,873 on settlement in December 2016.

On the establishment of the new loan, a front-end fee was paid, which is capitalised in the statement of financial position and written off over the duration of the loan. The remaining book value of the front-end fee related to the previous mortgage loan was written down in 2016, and this is classified under other financial costs.

* Maturity in 2018 is presented as current liabilities in the statement of financial position.
**See Note 16 concerning leasing agreements for information on the term structure of annual leasing amounts.

The agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31.12.2017 the Group was well within the required ratio.

NOTE 22 LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

At the beginning of 2017, the Group had booked earmarked liabilities, measured at fair value through profit or loss. These obligations related to two conditions:

1) Options for the purchase of non-controlling interests
Estimated liability to buy out minority shareholders (49 per cent) in the subsidiary Excellars AS, based on the management's best estimate at the expected due date. 41.1 per cent of these minority shares were acquired and paid for in February 2016, while the rest were settled in Q1 2017.

2) Issue of synthetic shares and options in a share programme for selected executives in the Group (co-investment programme).

Options for the purchase of non-controlling interests:
The liabilities related to options for the purchase of non-controlling interests were estimated on the basis of the pricing mechanisms applied to the purchase agreement and the shareholder agreements, discounted to the close of the financial year. The most important parameters in the pricing mechanisms were the development of the share values, measured as EBIT (operating profit) up until the estimated due date, multiplied by a multiple according to the Group's value development. As a basis for EBIT, the Group's budgets and long-term plans up until the expected due date are used. The discount rate used was NIBOR with duration matched to the expected due date.

During 2017 there were no significant value changes related to this minority option, and the last part of the option was settled in Q1 2017. After the redemption of the last part of the option, the Group has a 100 per cent ownership interest in the subsidiary Excellars AS.

Co-investment programme for managerial employees
With regard to the liabilities related to issued synthetic shares and options, these are associated with a share and option programme for senior executives and Board members of the Arcus Group prior to the IPO in 2016. All of the synthetic shares and options were redeemed at the IPO in December 2016, and the remaining obligation at the beginning of 2017 concerned the valuation of uncertainty related to the taxation treatment of settlement. This uncertainty was clarified in 2017 and the obligation was recognised as income.

Reconciliation of earmarked liabilities, measured at fair value via profit or loss:

Figures in 1,000 (stated currency)	Minority share options	Share programme	Liability at fair value through profit or loss
Book value of liability 31.12.2015	**67,837**	**51,162**	**118,999**
Fair value on initial recognition 2016	0	1,000	1,000
Paid during the period 2016	-85,959	-158,317	-244,276
Changes in value during the period 2016	28,180	119,976	148,156
Interest during the period 2016	256	0	256
Book value of liability 31.12.2016	**10,314**	**13,821**	**24,135**
Paid during the period 2017	-10,483	0	-10,483
Changes in value during the period 2017	148	-13,821	-13,673
Interest during the period 2017	21	0	21
Book value of liability 31.12.2017	**0**	**0**	**0**

NOTE 23 OTHER PROVISIONS FOR LIABILITIES

Severance pay (long-term)
Provisions for liabilities are associated with severance pay on termination of employment. The plan covered initially 70 employees of the Group who have received severance packages in connection with the restructuring of the companies. The obligations are paid monthly up to 2019 and are presented under other non-current provisions for liabilities. The provision is calculated by discounting future payments including social security contributions at a discount rate which depends on the length of the obligation. As at 31.12.2017, the provision was associated with four remaining individuals.

Severance pay (short-term)
It has been necessary for the Group to make organisational and staffing adjustments in order to meet new requirements, including new work processes and improved profitability. During this change process, the Group offered a range of personnel policy initiatives to its employees, in order to fulfil the new framework conditions without compulsory downsizing. As at 31.12.2017, the liability associated with this was recognised at NOK 2.2 million.

All of the current liabilities are recognised in the statement of financial position under other current liabilities.

Non-current liabilities

2017 *Figures in NOK 1000*	Book value as at 31.12.2016	Reversed provision 2017	Recognised provision 2017	Translation difference 2017	Book value as at 31.12.2017
Severance pay	627	-307	0	0	320
Non-current provisions	**627**	**-307**	**0**	**0**	**320**

2016 *Figures in NOK 1000*	Book value as at 31.12.2015	Reversed provision 2016	Recognised provision 2016	Translation difference 2016	Book value as at 31.12.2016
Severance pay	1,140	-513	0	0	627
Non-current provisions	**1,140**	**-513**	**0**	**0**	**627**

Current liabilities

2017 *Figures in NOK 1000*	Book value as at 31.12.2016	Reversed provision 2017	Recognised provision 2017	Translation Difference 2017	Book value as at 31.12.2017
Severance pay	2,276	-1,900	1,762	20	2,158
Other provisions	10,000	0	0	0	10,000
Other current liabilities	**12,276**	**-1,900**	**1,762**	**20**	**12,158**

2016 *Figures in NOK 1000*	Book value as at 31.12.2015	Reversed provision 2016	Recognised provision 2016	Translation Difference 2016	Book value as at 31.12.2016
Severance pay	7,080	-5,434	630	0	2,276
Other provisions	10,000	0	0	0	10,000
Other current liabilities	**17,080**	**-5,434**	**630**	**0**	**12,276**

NOTE 24 CURRENT LIABILITIES

Figures in NOK 1000	2017	2016
Unpaid public duties		
Special duties, alcohol	569,034	549,231
Value added tax	339,151	304,407
Other public duties	19,820	58,672
Total unpaid public duties*	**928,005**	**912,310**

Figures in NOK 1000	2017	2016
Other current liabilities		
Current non-interest-bearing debt*	25,329	19,088
Fair value, foreign exchange forward contracts	0	844
Provision for social security costs related to share-based remuneration	1,642	125
Provision for liabilities*, see Note 23	12,158	12,276
Other accrued costs*	158,615	165,001
Total other current liabilities	**197,744**	**197,334**

All current liabilities fall due within 12 months.

* Items included in changes in working capital in Note 3.

NOTE 25 PLEDGES AND GUARANTEES

Non-current credit financing in SEB
The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries with the exception of the companies in the wine business in Sweden and Finland, and Det Danske Spiritus Kompagni A/S in Denmark. At the end of 2017, this Group cash pool system was managed by the parent company, Arcus ASA. The parent company has pledged surety on behalf of all of its subsidiaries, which is linked to the outstanding drawing on this scheme at any time.

No collateral is pledged for the Group's non-current credit financing in SEB. For further information about the non-current credit financing, see Note 21.

Surety guarantee related to financial leasing
One of the Group's subsidiaries, Arcus-Gruppen AS, has pledged a surety guarantee for leased assets (financial leasing) with Nordea Finans. At the end of 2017, the surety guarantee amounted to TNOK 194,890 for the Group's own leased operating equipment. See also Note 16 concerning leasing agreements.

NOTE 26 BUSINESS MERGERS

Acquisition of the remaining 50 per cent of Det Danske Spiritus Kompagni A/S
In January 2017, the Arcus Group reached agreement with Flemming Karberg Familieholding ApS on the acquisition of the remaining 50 per cent ownership interest in Det Danske Spiritus Kompagni A/S (DDSK). Up to and including 31.12.2016, DDSK was owned on a 50/50 basis by the Arcus Group and Flemming Karberg Familieholding ApS, and was treated as a Joint Venture in the Arcus Group, see also Note 13. This is a strategic acquisition to gain control of the entire value chain related to the company's activities in Denmark. The acquisition was implemented as from 1.1.2017 and means that in accounting terms, DDSK will be fully consolidated in the Group as from the same date.

A final acquisition analysis is presented below, based on the company's statement of financial position as of the acquisition date.

Figures in NOK 1,000	Recognised value of acquired business	Observable excess values	Fair value of acquired business
Tangible assets	21	0	21
Receivables	44,883	0	44,883
Bank deposits	23,933	0	23,933
Unpaid public duties	-12,318	0	-12,318
Other current liabilities	-39,915	0	-39,915
Tax payable	-715	0	-715
Fair value, observable net assets			**15,887**
Acquisition value			31,535
Goodwill			**15,647**

The acquisition of the remaining shares in DDSK was mainly based on the same share price as for the existing shares, so that the acquisition did not entail any revaluation gains. The company is not assessed to have any excess value other than goodwill. On acquisition, goodwill is the part of the net excess value that is not identifiable. Estimated goodwill is capitalised in the consolidated statement of financial position based on the expectation that synergies with the Group's existing operations will provide opportunities for increased earnings in the future. The acquisition analysis is final.

Net cash outflow related to the acquisition:

Figures in NOK 1000	2017
- Cash payment on acquisition	-22,753
+ Cash and cash equivalents in the acquired business	23,933
Net cash outflow on acquisition	**1,180**

The effect of acquired activities on the profit for the year:

Figures in NOK 1,000	**2017**
Sales revenue	147,418
Total operating revenues	**147,418**
Cost of sales	-119,853
Payroll costs	-9,810
Share of operating expenses	-10,063
Total operating expenses	**-139,726**
Operating profit	**7,692**

Acquisition of BevCo AS
In September 2017, the Group acquired all of the shares in BevCo AS. Among other things, the company holds the distribution rights for Dooley's Toffee in Norway, and the acquisition was thus part of the Group's strategy to make small and selective acquisitions in order to strengthen its position in the Nordic region. The acquisition was implemented as from 1.9.2017 and the company has been fully consolidated in the Group as from the same date.

A final acquisition analysis is presented below, based on the company's statement of financial position as of the acquisition date.

Figures in NOK 1,000	**Recognised value of acquired business**	**Observable excess values**	**Fair value of acquired business**
Brands	0	3,900	3,900
Inventories	201	0	201
Receivables	120	0	120
Bank deposits	1,008	0	1,008
Unpaid public duties	-93	0	-93
Other current liabilities	-274	0	-274
Deferred tax liability	0	-858	-858
Fair value, observable net assets			**4,004**
Acquisition value			4,940
Goodwill			**936**

Net cash outflow related to the acquisition:

Figures in NOK 1000	**2017**
- Cash payment on acquisition	-4,940
+ Cash and cash equivalents in the acquired business	1,008
Net cash outflow on acquisition	**-3,932**

NOTE 27 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

Other
No significant events occurred between the close of the financial year and the date on which Arcus's consolidated financial statements and parent company financial statements were approved for publication. This applies to events that would have provided knowledge of factors present at the close of the financial year, or events concerning matters that have arisen since the close of the financial year. The consolidated financial statements were approved for publication by resolution of the Board of Directors on 15 March 2018.

Alternative performance measurements

In the discussion of the reported operational results, statement of financial position and cash flows, the Group refers to a number of parameters for Alternative performance measurements. These are not defined in the general accounting policies, as for IFRS.

The Group Management of the Arcus Group frequently uses these parameters for Alternative performance measurements and believes that, in combination with comparable parameters defined in ordinary accounting policies, these are of great benefit to investors wishing to understand the Group's business, ability to fulfil its commitments, and ability to monitor the development of new business opportunities. These alternative measurements of results should not be seen in isolation, but, as the name indicates, are an alternative to more well-known result measurement parameters as defined in international accounting standards.

Below, the Group's parameters for Alternative performance measurements are defined.

Gross profit
The Arcus Group defines gross profit as total operating revenue less cost of sales.

Figures in NOK 1000	**2017**	**2016**
Group		
Sales revenues	2,530,126	2,521,826
Other operating revenues	44,934	60,571
Total operating revenue	2,575,060	2,582,397
Cost of sales	-1,408,524	-1,467,920
Gross profit	**1,166,536**	**1,114,477**

Figures in NOK 1000	**2017**	**2016**
Spirits		
Sales revenues	763,421	751,107
Other operating revenues	149,862	152,776
Total operating revenue	913,283	903,883
Cost of sales	-404,928	-427,031
Gross profit	**508,355**	**476,851**

Figures in NOK 1000	**2017**	**2016**
Wine		
Sales revenues	1,522,689	1,538,676
Other operating revenues	18,190	13,697
Total operating revenue	1,540,879	1,552,373
Cost of sales	-1,154,411	-1,165,620
Gross profit	**386,469**	**386,753**

Figures in NOK 1000	**2017**	**2016**
Distribution		
Sales revenues	251,332	232,043
Other operating revenues	33,071	30,881
Total operating revenue	284,403	262,924
Cost of sales	0	0
Gross profit	**284,403**	**262,924**

Other income and expenses
To improve the information value of the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. Other income and expenses are presented in Note 7.

Below, the income statement is presented up to and including EBIT, with and without adjustment for other income and expenses:

Figures in NOK 1000	2017 Adjusted	2017 Non-adjusted	2016 Adjusted	2016 Non-adjusted
Sales revenues	2,530,126	2,530,126	2,521,826	2,521,826
Other operating revenues	44,934	44,934	60,571	60,571
Total operating revenues	**2,575,060**	**2,575,060**	**2,582,397**	**2,582,397**
Net profit on sale of fixed assets	30	30	144	1,051
Cost of sales	-1,408,524	-1,408,524	-1,467,920	-1,467,920
Salaries and other personnel costs	-417,412	-422,334	-392,545	-399,505
Other operating expenses	-391,699	-399,944	-392,516	-431,337
Share of profit from associated companies and jointly controlled entities	3,286	3,286	5,789	5,789
EBITDA	**360,741**	**347,574**	**335,349**	**290,475**
Depreciation and amortisation	-51,581	-51,581	-51,625	-51,625
Write-downs	0	-22,700	0	0
Operating profit (EBIT)	**309,160**	**273,293**	**283,724**	**238,850**
Other income and expenses	-13,167	0	-44,874	0
Write-downs	-22,700	0	0	0
Reported operating profit	**273,293**	**273,293**	**238,850**	**238,850**

EBITDA and adjusted EBITDA
EBITDA is defined as operating profit before depreciation, write-downs and amortisation.
Adjusted EBITDA is defined as operating profit before depreciation, write-downs, amortisation and other income and expenses.
EBITDA margin = EBITDA/Total operating revenue
Adjusted EBITDA margin = adjusted EBITDA/Total operating revenue

Below is a reconciliation of operating profit to adjusted EBITDA:

Figures in NOK 1000	2017	2016
Group		
Operating profit	273,293	238,850
Depreciation, write-downs and amortisation	74,281	51,625
EBITDA	347,574	290,475
Other income and expenses	13,167	44,874
Adjusted EBITDA	**360,741**	**335,349**

Figures in NOK 1000	2017	2016
Spirits		
Operating profit	151,494	134,765
Depreciation, write-downs and amortisation	24,117	23,906
EBITDA	175,611	158,671
Other income and expenses	7,142	3,916
Adjusted EBITDA	**182,753**	**162,587**

Figures in NOK 1000	2017	2016
Wine		
Operating profit	184,709	193,148
Depreciation, write-downs and amortisation	1,794	1,014
EBITDA	186,502	194,162
Other income and expenses	5,166	0
Adjusted EBITDA	**191,668**	**194,162**

Figures in NOK 1000	2017	2016
Distribution		
Operating profit	660	-11,435
Depreciation, write-downs and amortisation	12,825	13,632
EBITDA	13,485	2,197
Other income and expenses	647	399
Adjusted EBITDA	**14,132**	**2,596**

Figures in NOK 1000	2017	2016
Other		
Operating profit	-35,690	-72,917
Depreciation, write-downs and amortisation	7,666	8,363
EBITDA	-28,024	-64,554
Other income and expenses	212	40,559
Adjusted EBITDA	**-27,812**	**-23,995**

OTHER DEFINITIONS OF ALTERNATIVE PERFORMANCE MEASUREMENTS, SHOWN IN KEY FIGURES

Equity ratio

Equity ratio = equity/total equity and debt

Net interest-bearing debt

Net interest-bearing debt = Debt to financial institutions + book value of capitalised front-end fee + fair value, interest rate swap - bank deposits and other cash and cash equivalents.

Figures in NOK 1000	2017	2016
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	909,218	886,255
Short-term interest-bearing debt to credit institutions	90,071	16,498
Book value of capitalised front-end fee	6,577	8,032
Bank deposits and other cash and cash equivalents	-184,415	-199,385
Net interest-bearing debt	**821,451**	**711,400**

Organic growth

Organic growth in income is the Group or segment's total operating revenue, adjusted for translation effects and structural changes.

Figures in NOK 1000	2017	2016
Group		
Sales revenues	2,530,126	2,521,826
Other operating revenues	44,934	60,571
Total operating revenue	2,575,060	2,582,397
Currency effects[1]	0	-13,682
Structural changes[2]	-46,060	-6,940
Calculation basis, organic growth	**2,529,000**	**2,561,775**

1 Currency effects are calculated by translation of income in 2016 in other currencies than NOK at the same average rate as for translation of income in 2017.
2 The structural changes in 2017 primarily comprise adjustment for revenue from the acquisition of the Dworek and Vanlig brands, and the acquisition of the DDSK and BevCo activities. The adjustment in 2016 is related to the effect on income of the discontinuation of the deposit scheme in Denmark.

Figures in NOK 1000	2017	2016
Spirits		
Sales revenues	763,421	751,107
Other operating revenues	149,862	152,776
Total operating revenue	913,283	903,883
Currency effects[1]	0	-485
Structural changes[2]	-46,060	-6,940
Calculation basis, organic growth	**867,223**	**896,458**

1 Currency effects are calculated by translation of income in 2016 in other currencies than NOK at the same average rate as for translation of income in 2017.
2 The structural changes in 2017 primarily comprise adjustment for revenue from the acquisition of the Dworek and Vanlig brands, and the acquisition of the DDSK and BevCo business. The adjustment in 2016 is related to the effect on revenue from the discontinuation of the deposit scheme for re-used bottles in Denmark.

Figures in NOK 1000	2017	2016
Wine		
Sales revenues	1,522,689	1,538,676
Other operating revenues	18,190	13,697
Total operating revenue	1,540,879	1,552,373
Currency effects[1]	0	-12,988
Structural changes	0	0
Calculation basis, organic growth	**1,540,879**	**1,539,385**

1 Currency effects are calculated by translation of income in 2016 in other currencies than NOK at the same average rate as for translation of income in 2017.

Figures in NOK 1000	2017	2016
Distribution		
Sales revenues	251,332	232,043
Other operating revenues	33,071	30,881
Total operating revenue	284,403	262,924
Currency effects	0	0
Structural changes	0	0
Calculation basis, organic growth	**284,403**	**262,924**

PARENT COMPANY ACCOUNTS

Statement of income 01.01. - 31.12.

Figures in NOK 1,000	Note	2017	2016
OPERATING REVENUE AND EXPENSES			
Payroll costs	1	10,244	6,285
Other operating expenses		4,540	37,909
Total operating expenses		**14,784**	**44,194**
Operating profit		**-14,784**	**-44,194**
FINANCIAL INCOME AND EXPENSES	9		
Income from investment in subsidiary		65,312	0
Interest income from Group companies		0	707
Other interest income		3,755	3,982
Other financial income		15,836	7,698
Interest costs to Group companies		0	-2,795
Other interest costs		-10,107	-42,660
Other financial costs		-11,882	-155,372
Net financial profit/loss		**62,914**	**-188,440**
PROFIT BEFORE TAX		**48,130**	**-232,634**
Tax	2	17,111	-32,965
RESULT FOR THE YEAR		**31,019**	**-199,669**
Transferred from/to other equity		31,019	-199,669
Total transfers		**31,019**	**-199,669**

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2017	2016
ASSETS			
Fixed assets			
Intangible assets			
Deferred tax assets	2	124,137	141,248
Total intangible assets		**124,137**	**141,248**
Financial assets			
Investment in subsidiary	3	1,438,317	1,438,317
Total financial assets		**1,438,317**	**1,438,317**
Total fixed assets		**1,562,454**	**1,579,565**
Current assets			
Receivables			
Trade receivables from Group companies	9	22	0
Group contributions from Group companies	9	65,312	0
Current receivables from Group companies	9	8,326	0
Other receivables		274	445
Total receivables		**73,934**	**445**
Cash and cash equivalents	10	0	100,731
Total current assets		**73,934**	**101,176**
TOTAL ASSETS		**1,636,388**	**1,680,741**

Figures in NOK 1,000	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	4,5	1,360	1,360
Share premium	5	719,280	770,744
Total paid-in equity		**720,640**	**772,104**
Retained earnings			
Other equity	5	0	22,664
Total retained earnings		**0**	**22,664**
Total equity		**720,640**	**794,768**
Liabilities			
Provisions			
Pension obligations	6	757	0
Other provisions	7	0	13,821
Total provisions		**757**	**13,821**
Other non-current liabilities			
Debt to financial institutions	8	-3,055	-3,835
Total other non-current liabilities		**-3,055**	**-3,835**
Current liabilities			
Debt to financial institutions	8	72,700	0
Trade payables		106	19,498
Trade payables to Group companies	9	3	19,559
Other current liabilities		6,423	46,571
Other current liabilities payable to Group companies	9	0	1,350
Allocated dividend	5	112,920	99,994
Intragroup balance in Group cash pool system	9,10	725,894	689,015
Total current liabilities		**918,046**	**875,987**
Total liabilities		**915,748**	**885,973**
TOTAL EQUITY AND LIABILITIES		**1,636,388**	**1,680,741**

Gjelleråsen, 15 March 2018

Michael Holm Johansen
Chairman of the Board

Stein Erik Hagen

Hanne Refsholt

Eilif Due

Trond Berger

Leena Saarinen

Erik Hagen

Kjell Arne Greni

Ingrid E. Skistad

Ann-Beth Freuchen

Kenneth Hamnes
Group CEO

Statement of cash flows 01.01. - 31.12.

Figures in NOK 1,000	**2017**	**2016**
CASH FLOWS FROM OPERATIONS		
Pre-tax profit	48,130	-232,634
Pension costs without cash effect	284	0
Costs related to share-based remuneration without cash effect	7,898	606
Value changes without cash effect	-13,821	120,065
Financial expenses without cash effect	780	20,563
Change in trade receivables	-22	0
Change in trade payables	-38,948	38,627
Change in other current assets and other liabilities	-114,965	47,115
Net cash flows from operational activities	**-110,664**	**-5,658**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Paid-out on the settlement of synthetic shares and options	0	-154,701
Net cash flow from investment activities	**0**	**-154,701**
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in loans to subsidiaries	0	65,000
Pension obligation taken over from subsidiary	348	0
Share issue	0	768,883
Proceeds from debt to financial institutions	72,700	100,000
Repayment of debt to financial institutions	0	-629,159
Capitalised front-end fees	0	-4,400
Change in intragroup balance in Group cash pool system	36,879	-66,994
Payments of dividends/Group contributions	-99,994	0
Net cash flow from financing activities	**9,933**	**233,330**
Net change in cash and cash equivalents	**-100,731**	**72,971**
Holdings of cash and cash equivalents as at 01.01.	100,731	27,760
Holdings of cash and cash equivalents as at 31.12.	**0**	**100,731**

Accounting policies

The annual accounts have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting policies.

The company was founded on 5 November 2004, and listed on the Oslo Stock Exchange on 1 December 2016.

The purpose of the company is to operate the import, export, production, storage and distribution of alcoholic beverages and other goods, and other activities related to this business, as well as the ownership of participations in other companies that conduct such business.

CONSOLIDATED FINANCIAL STATEMENTS

Arcus ASA owns 100 per cent of the shares in Arcus-Gruppen AS and Vectura AS.

GENERAL RULE FOR VALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES

Assets intended for continuing ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables due for payment within one year are classified as current assets. The classification of current and non-current liabilities is based on similar criteria.

Fixed assets are valued at acquisition cost, but written down to fair value if the impairment is not expected to be temporary. Fixed assets with a limited economic life are depreciated according to a reasonable depreciation plan.

Current assets are valued at the lower of cost or fair value. Current and non-current liabilities are capitalised at the nominal amounts received at the time of establishment. Borrowing costs are capitalised together with the loan and amortised over the term of the loan. The first year's instalment is reclassified as a current liability.

Certain items are valued according to different principles, as explained below.

SHARES IN SUBSIDIARIES

Shares in subsidiaries are valued using the cost method. The transaction costs are added to the purchase price of shares in subsidiaries. Shares are written down to fair value if this is lower than the recognised value.

Group contributions are recognised in the statement of income in the same year as they are allocated in the subsidiary. If dividends/other distributions exceed the share of retained profit after the acquisition, the surplus represents repayment of invested capital and the distributions are deducted from the value of the investment in the statement of financial position.

RECEIVABLES

Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Provisions for losses are made on the basis of an individual assessment of each receivable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits and other means of payment with a due date less than three months from the acquisition date.

BORROWING

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Transaction costs (front-end fees) are capitalised in the statement of financial position and depreciated over the term of the loan.

Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year.

PENSIONS

Pension costs comprise the change in pension obligations based on actuarial assumptions and costs related to defined-contribution pension schemes. For pension obligations based on actuarial assumptions the costs concern the pension earned during the period, based on assumptions concerning future wage growth and interest costs on the calculated obligation. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations), are recognised against equity.

TAXES

Tax expenses are matched with profit/loss before tax. Tax costs comprise tax payable (tax on the year's directly taxable income) and changes in net deferred tax. Tax costs are allocated to ordinary profit/loss and profit/loss from extraordinary items in accordance with the taxation basis. Deferred tax and deferred tax assets are presented net in the statement of financial position.

Tax assets are only capitalised if it can be shown to be probable that they can be utilised via future taxable income.

STATEMENT OF CASH FLOWS

The indirect method is used in the preparation of the statement of cash flows. Cash and cash equivalents in the statement of financial position are defined as holdings of cash and cash equivalents in the statement of cash flows.

All figures in the financial statements are presented in NOK 1,000 unless otherwise indicated.

Notes

NOTE 1 PAYROLL COSTS

	2017	2016
Salaries including holiday pay	7,408	4,930
Social security costs	1,097	410
Pension costs including social security costs	464	0
Other personnel costs	1,275	945
Total salaries and other personnel costs	**10,244**	**6,285**
Average number of employees	2	0

	2017		2016	
Benefits to executive personnel	**Group CEO**	**Board of Directors**	**Group CEO**	**Board of Directors**
Salary	3,031	2,444	2,444	1,527
Bonus earned for the current year	324	0	1,100	0
Pension costs	386	0	308	0
Other remuneration	227	0	220	0

The company had two employees during the year. The company had no employees in 2016, but remuneration was paid to the Board of Directors. In addition, bonuses have been re-invoiced and provisions have been made for bonus payments related to the work on the IPO process in 2016.

The declared remuneration to the Group CEO for 2016 was earned, recognised and paid from the subsidiary Arcus-Gruppen AS. As from 2017, the Group CEO has been employed by and received his salary from Arcus ASA.

The Group CEO also has an ordinary bonus agreement which, on specific terms, will release payment of up to five monthly salaries. He is also included in a temporary share programme (matching shares) which was established in conjunction with the IPO in 2016, and a newly-established option programme that was adopted by the Annual General Meeting in May 2017. His holdings in these incentive schemes are specified in the Group's Note 9.

The Group CEO and other members of the Group Management have an ordinary occupational pension with Storebrand, which entails 5 per cent pension contributions for salaries of 0 to 7.1G and 11 per cent for salaries from 7.1 to 12G. He also has a supplementary pension agreement that gives pension earnings of 15 per cent of salaries above 12G. These pension earnings are capitalised annually in the company's statement of financial position, where the return is based on the return from the Storebrand Balansert pension fund.

If the CEO gives notice of termination, he is subject to six months' notice of termination. If notice of termination is given by the Group, the Group CEO will be entitled to 12 months' severance pay, and during this period will not be able to take employment in competing companies.

No loans or surety are provided for the Group CEO or members of the Board of Directors.

The Group CEO's holdings of ordinary shares in Arcus ASA are stated in Note 20 for the Group.

Share-based incentive schemes

Matching shares:

In conjunction with the stock-exchange listing of the parent company, Arcus ASA, in 2016 some key persons were offered matching shares, whereby they are entitled to receive one matching share for each share purchased under the IPO. These matching shares are granted to recipients in 2019 after the publication of the quarterly report for the fourth quarter of 2018, if the person in question is still employed at this time.

If the listed share price on the redemption date exceeds two times the listed price on the allocation date, the number of matching shares will be reduced, so that the total value of the matching shares allocated does not exceed two times the value on the allocation date.

In Arcus ASA, two persons received this offer, including the Group CEO. Together they are entitled to allocation of 61,867 shares in Arcus ASA if the employment criterion is fulfilled on the allocation date (of which 42,100 shares for the Group CEO).

The programme entailed costs of TNOK 1,476 in 2017.

Options:

At the annual general meeting of Arcus ASA in May 2017, a new option programme for senior executives in the Group was adopted, with annual allocation of new options. Two persons at Arcus ASA are included in this programme, including the Group CEO.

The options' vesting period will be three years from the allocation date, whereby the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

The programme entailed costs of TNOK 441 in 2017. Below is a specification of outstanding options at the end of the year:

Number of options	2017	2016
Outstanding options at the beginning of the year	0	0
Allocated options during the year	290,199	0
Outstanding options at the end of the year*	**290,199**	**0**

* Of which 199,426 outstanding options to the Group CEO.

Auditors' fees	2017	2016
Statutory audit	328	326
Other financial auditing	88	0
Other certification services	0	707
Total auditors' fees	**416**	**1,033**

The amounts are stated in TNOK and exclude VAT.

Other services than auditing in 2016 are solely related to fees in conjunction with the IPO process.

NOTE 2 TAX

Tax for the year is calculated as follows:	2017	2016
Change in deferred tax	17,111	-34,392
Tax effect of costs related to the IPO, carried to equity	0	1,427
Tax	**17,111**	**-32,965**
Reconciliation from nominal to actual tax rates:		
Profit before tax	48,130	-232,634
Expected income tax at a nominal tax rate of 24 per cent (25 per cent in 2016)	11,551	-58,159
Tax effect of the following items:		
Non-deductible costs	276	17,882
Change due to a change in tax rate	5,397	5,885
Tax on costs booked directly to equity	-113	1,427
Tax	**17,111**	**-32,965**
Effective tax rate	35.6%	14.2%

Specification of temporary differences and deficit carried forward:

	2017		2016	
	Asset	Liability	Asset	Liability
Non-current debt	0	3,055	0	3,835
Pension obligations	757	0	0	0
Other liabilities	1,271	0	16,312	0
Deficit carried forward	540,754	0	576,057	0
Total	**542,782**	**3,055**	**592,369**	**3,835**
Basis for deferred tax asset/liability	539,727		588,534	
Net deferred tax asset in the statement of financial position*	**124,137**		**141,248**	

At the end of the year, the company had NOK 124.4 million in capitalised deferred tax assets associated with the deficit to be carried forward. Based on the Group's strategic plans and current long-term plans for companies in the tax group, the Board of Directors and executive management expect that the deferred tax assets can be utilised.

At the end of 2017, deferred tax was calculated at 23 per cent as a result of government tax changes as from 2018. At the end of 2016, deferred tax was calculated at 24 per cent.

NOTE 3 SUBSIDIARIES

Subsidiaries of Arcus ASA

Company	Date of acquisition	Business office	Voting and ownership	Currency	Nominal share capital
Arcus-Gruppen AS	10.10.05	Nittedal	100%	NOK	276,000
Vectura AS	30.09.13	Nittedal	100%	NOK	14,000

Company	Cost price (NOK)	Book value as at 31.12	Equity according to last annual financial statements (NOK)	Profit for the year 2017 (NOK)
Arcus-Gruppen AS	1,886,607	1,362,217	1,958,409	114,747
Vectura AS	76,100	76,100	21,708	-2,433
Total subsidiaries	**1,962,707**	**1,438,317**	**1,980,117**	**112,314**

NOTE 4 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
31.12.2015		1,000,000	1.00	1,000
20.10.16	Split 1:50	50,000,000	0.02	1,000
01.12.2016	Share issue	68,023,255	0.02	1,360
31.12.17		**68,023,255**	**0.02**	**1,360**

20 largest shareholders as at 31.12.2017:		Number of shares	Ownership and voting rights
Canica AS		22,670,000	33.3%
Geveran Trading Co Ltd		6,750,000	9.9%
Verdipapirfondet DNB Norge (IV)		3,577,915	5.3%
Hoff SA		3,297,000	4.8%
Sundt AS		3,234,957	4.8%
Folketrygdfondet		1,800,000	2.6%
Danske Invest Norske Instit. II.		1,725,100	2.5%
KLP Aksjenorge		1,266,494	1.9%
Verdipapirfondet DNB Norden (III)		1,222,178	1.8%
Centra Invest AS		1,169,846	1.7%
Holta Invest AS		1,000,000	1.5%
Ilmarinen Mutual Pens Ins Comp		1,000,000	1.5%
Verdipapirfondet DNB Norge Selektiv		936,616	1.4%
Goldman Sachs International	NOM	900,000	1.3%
Skandinaviska Enskilda Banken AB (A/C SEB AIF - Swedish Residents)	NOM	862,000	1.3%
Danske Invest Norske Aksjer Inst		855,400	1.3%
Landkreditt dividend		850,000	1.2%
Kommunal Landspensjonskasse		809,707	1.2%
Skandinavniska Enskilda Banken AB (A/C clients account)	NOM	795,113	1.2%
Citibank Europe Plc	NOM	794,127	1.2%
Other shareholders		12,506,802	18.4%
Total		**68,023,255**	**100.0%**

Dividend
The Board of Directors proposes dividend distribution of NOK 1.66 per share for 2017 (2016 NOK 1.47 per share).

NOTE 5 EQUITY

	Share capital	Share premium	Other equity	Total
Equity as at 01.01	1,360	770,744	22,664	794,768
Profit for the year	0	0	31,019	31,019
Share-based payment	0	0	7,898	7,898
Estimate deviations, pensions	0	0	-125	-125
Allocated dividend	0	-51,464	-61,456	-112,920
Equity as at 31.12	**1,360**	**719,280**	**0**	**720,640**

NOTE 6 PENSION OBLIGATIONS AND COSTS

The company is obliged to have an occupational pension scheme under the Norwegian Mandatory Occupational Pensions Act, and has a pension scheme which fulfils the requirements of the Act.

Defined-contribution pension
The Arcus Group's ordinary pension plan for all other employees is a defined-contribution pension plan with Storebrand. The contribution rate is 5 per cent of salary in the bracket from 0 to 7.1 times the National Insurance basic amount (G), and 11 per cent of salary in the bracket from 7.1 to 12 times the National Insurance basic amount (G). In addition, there is a private disability plan with a 66 per cent benefit level, without free policy accumulation. The child and dependent supplement to Arcus' group life plan is a replacement for the previous spouse and child pension.

The costs associated with the defined-contribution pension plan are related to the current premium invoices from the insurance company with which the Arcus Group has signed a defined-contribution pension agreement. The current defined-contribution pensions and disability pensions for employees in the defined-contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined-contribution plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised obligation related to this was NOK 0.1 million at the end of 2017.

Unfunded pension arrangement
The Group CEO also has an unfunded pension arrangement in which the pension entitlement earned is 15 per cent of the salary above 12G. Ongoing provision is made for this obligation in the company's balance sheet, with annual interest at the same rate as achieved in Storebrand Balansert Pensjon. At the end of 2017, this obligation was recognised at NOK 0.7 million.

General assumptions
The company applies a discount rate equivalent to the covered bond interest rate to its pension commitments. This is in line with the recommendations of the Norwegian Accounting Standards Board (NASB). The pension assumptions made by the company are consistent with the recommendations of the Accounting Standards Board from September 2017.

Figures in NOK 1,000

Pension costs	**2017**	**2016**
Current value of pension earnings for the year	213	0
Interest cost of pension obligations	36	0
Accrued social security contributions	35	0
Net pension costs after social security contributions	**284**	**0**
Defined-contribution pension plan:		
Recognised contributions excluding social security contributions	180	0
Net pension obligations:		
Estimated accrued obligations, non-funded pension plans	757	0
Net pension assets/obligations recognised in the statement of financial position	**757**	**0**
Changes in obligations:		
Net pension obligations 01.01	0	0
Pension costs, continued operations	284	0
Paid in via operations after taking over an obligation from a subsidiary	348	0
Estimated deviations recognised directly in equity (IAS19R)	125	0
Net pension obligations 31.12.	**757**	**0**
Economic assumptions:		
Discount rate	2.30%	2.10%
Expected salary adjustment	2.50%	2.25%
Expected pension increase	1.50%	1.25%
Expected adjustment of the National Insurance basic amount (G)	2.25%	2.00%
Expected return on pension assets	2.30%	2.10%
Actuarial and demographic assumptions:		
Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

NOTE 7 PROVISIONS FOR LIABILITIES

At the beginning of the year, 23,971 synthetic shares and 102,270 synthetic options associated with the parent company, Arcus ASA, had been issued. All of these were derecognised in conjunction with the parent company's IPO in December 2016. At the end of 2016, there were no longer any agreements in this co-investment programme in Arcus ASA. The Group CEO had 5,970 synthetic options in this programme.

The synthetic shares and options were issued at the estimated fair value on the issue date. The valuation on the issue date was calculated on the basis of external valuations, according to a cash flow model in which cash flows were discounted to fair value using a discount rate corresponding to the Group's weighted average cost of capital (WACC), adjusted for a liquidity premium, but where the final value was also assessed against the pricing of comparable companies. The development in value in reporting periods between issue and settlement was calculated according to the same principles.

On settlement, the synthetic shares resulted in a payment equivalent to the fair value of the actual shares in the parent company, multiplied by the number of synthetic shares. The fair value of the shares was set as the parent company's opening price on the Oslo Stock Exchange. On settlement, the synthetic options resulted in a payment equivalent to the value per share beyond the exercise price, multiplied by the number of synthetic options.

Value changes related to this incentive programme are presented under financial items.

At the beginning of 2017 there was a remaining liability of NOK 13.8 million, which is mainly related to the remaining provision for uncertainty concerning a previous co-investment programme for executive personnel, with synthetic shares and options. This uncertainty was assessed to be insignificant in 2017, and the provision has been reversed. The changes in 2017 are presented in the table below. Reference is also made to Note 22 in the consolidated financial statements.

Figures in NOK 1,000	**Synthetic options**	**Total provisions for liabilities**
Recognised value of liability, 1.1.	13,821	13,821
Changes in value during the period	-13,821	-13,821
Payments during the period	0	0
Book value of liability, 31.12	**0**	**0**

NOTE 8 LOANS, PLEDGES AND GUARANTEES ETC.

Debt to financial institutions				2017	2016
Figures in NOK 1,000	Currency	Interest rate profile	Loan amount in currency	Loan amount in NOK	Loan amount in NOK
Overdraft facility, SEB	NOK	Floating	72,700	72,700	0
Total debt to financial institutions				**72,700**	**0**
Capitalised front-end fees				-3,055	-3,835
Book value as at 31.12				**69,645**	**-3,835**

Term structure	Maturity 2018	Due date 2019-2021	Due date after 2021	Total
SEB	72,700	0	0	72,700
Total debt to financial institutions	**72,700**	**0**	**0**	**72,700**

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries with the exception of the companies in the wine business in Sweden and Finland. At the end of 2017, this Group cash pool system was managed by Arcus ASA. Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

The capitalised front-end fee with a book value of TNOK 3,055 relates to the front-end fee for the cash pool scheme. The outstanding value is here amortised over the duration of the loan, until the end of 2021.

The Group has a long-term financing agreement with SEB, whereby the loan is formally for TSEK 750 and is booked in one of the subsidiaries in Sweden, VinGruppen Sweden Holding AB. The financing agreement does not include a pledger of security.

The company has no non-current debt with terms exceeding five years.

The agreement on a mortgage loan facility contains a loan term (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31.12.2017 the Group was well within the required ratio.

NOTE 9 INTRAGROUP RECEIVABLES AND LIABILITIES

Receivables	2017	2016
Claims on Group contributions from Arcus-Gruppen AS	65,312	0
Trade receivables from Group companies	22	0
Other current receivables from Group companies	8,326	0
Total	**73,660**	**0**

Liabilities	2017	2016
Trade payables to Group companies	3	19,559
Other current liabilities payable to Group companies	0	1,350
Intragroup balance in Group cash pool system	725,894	689,015
Total	**725,897**	**709,924**

The company has no consolidated assets or liabilities that will fall due more than five years after the close of the financial year.

NOTE 10 CASH AND CASH EQUIVALENTS

The company has no restricted bank deposits, but has a bank guarantee for a tax payment of TNOK 2,500.

The company administrates the Group cash pool scheme for the Group and the scheme includes most of the Group's subsidiaries. The Swedish and Finnish wine activities, and the new subsidiary, Det Danske Spiritus Kompagni A/S, are not included in the scheme.

Net deposits or drawings by the subsidiaries are presented as intragroup balances with Arcus ASA. The joint overdraft limit in the Group cash pool system is TNOK 600,000.

At year-end, the Group had total drawings of TNOK 72,700 from the scheme, which are presented as an overdraft for Arcus ASA, compared with a deposit of TNOK 100,731 at the end of 2016.

As at 31.12.2017, Arcus ASA has drawings of TNOK 725,894 in the Group cash pool system, compared with drawings of TNOK 689,015 at the end of 2016.

NOTE 11 FINANCIAL MARKET RISK

Financial risk
The company has individual financial derivatives for hedging purposes. The company does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes.

The risk management procedures are adopted by the Board of Directors and are undertaken by administration in collaboration with the individual business areas. The most important financial risks to which the company is exposed are associated with interest rate risk, liquidity risk and foreign currency risk. The company's management continuously assesses how these are to be handled.

Interest rate risk
The company is exposed to interest rate risk on the investment of liquid assets and drawing on the Group cash pool system. At 31.12.2017 all of the company's interest-bearing deposits and liabilities were subject to variable interest rates.

Liquidity risk
Liquidity risk is the risk that the Company will not be in a position to service its financial liabilities as they fall due. The company must at all times have sufficient liquidity to meet its obligations. It is also the goal to minimise the company's excess liquidity. The company will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance.

As far as possible, the company wishes to have flexibility for its liquid assets in relation to day-to-day operations. The Group achieves this through a Group cash pool system with a drawing facility that as of 31.12.2017 is managed by Arcus ASA.

When funds are needed for investment purposes, the company relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used.

Foreign currency risk
In view of the company's international activities, there is some exposure to foreign currency risk. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions. The accounting treatment of financial derivatives is described under "Accounting policies".

The company makes some purchases in foreign currency (mainly EUR), while the functional currency is NOK.

Receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate on the balance sheet date. Foreign currency exposure is mainly hedged used forward contracts.

During the year, purchase and sale of goods in foreign currency are hedged to a certain degree, and the forward rate achieved in the market is used as the transaction rate. As a general rule, the foreign currency exposure is hedged three times a year, at four-month intervals.

At 31.12.2017 the company did not have any forward contracts (hedging) to hedge balance sheet items and orders received.

NOTE 12 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

No significant events occurred between the close of the financial year and the date on which Arcus ASA's consolidated financial statements and parent company financial statements were approved for publication. This applies to events that would have provided knowledge of factors present at the close of the financial year, or events concerning matters that have arisen since the close of the financial year. The consolidated financial statements were approved for publication by resolution of the Board of Directors on 15 March 2018.

AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Arcus ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arcus ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017 the statement of income and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the statement of financial position as at 31 December 2017, statement of income, statements of total comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment assessments – trade marks and goodwill

As at 31 December 2017, the Arcus Group had significant trade marks and goodwill recognized in the balance sheet, representing 41% of the total capital. As the market conditions for some enterprises are uncertain, the risk for losses due to impairment of these cash generating entities, including Excellars, is increasing. In addition, some spirit brands have in recent years shown signs of declining turnover. Due to the extent of judgmental assessments applied in management's models for impairment considerations, together with the significant value in the balance sheet, the impairment assessments of trade marks and goodwill are considered a key audit matter.

Our audit of the Group's impairment assessments has included a review and testing of the impairment models, assessment of cash-generating entities, control of mathematical accuracy of models together with testing and evaluating the assumptions management used as a basis in the calculations. We also reviewed the design of management's internal controls related to the impairment assessments. In addition, we considered management's assumption on future cash-flow forecasts by looking at the historical accuracy in management's budgets and prognoses against the Company's actual results. We compared key assumptions against market information where available. We also assessed discount rates by comparing the assumptions for the calculation with external data like expected inflation, debt ratio, loan interest, risk premium and beta values for comparable companies. In addition, we have reviewed and carried out sensitivity analyses in order to evaluate how sensitive the model is for changes in the most important underlying assumptions.

We refer to note 15 in the financial statements and to information about intangible assets and significant accounting estimates and judgmental considerations in the Group's accounting principles.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 16 March 2018
ERNST & YOUNG AS

Kjetil Rimstad
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Independent auditor's report - Arcus ASA

Directors' Report: ARCUS ASA

The Arcus Group is a leading wine and spirits company in the Nordic region. The Group is a global market leader in the aquavit category, a market leader for spirits in Norway, and number two in Denmark. The Group is also the market leader for wine in Norway, number two in Sweden, and probably number three in Finland.

Arcus ASA is a holding company whose purpose is the import, export, production, storage and distribution of alcoholic beverages and other goods, as well as other activities related to this business, and the ownership of interests in other companies that conduct such business. Arcus' head office is located at Gjelleråsen in Nittedal Municipality, close to Oslo.

STRATEGY

The Group has three business areas: Wine, Spirits and Distribution.

For Wine, the domestic market is Sweden, Norway and Finland. There is strong focus on winning tenders and attracting complementing agencies. The further development of our own brands, primarily through Arcus Wine Brands, is important. The opportunity for minority ownership interests must be used actively to attract skilled individuals for starting up wine companies.

For Spirits, the domestic market is defined as the Nordic countries and Germany. A clear objective is to further develop sales in the domestic market, while revitalising the German market. The primary objective is growth in the core categories of aquavit, bitters and cognac. Innovation is key, in terms of categories, consumer groups and occasions.

Concerning Distribution, there is sustained focus on cost optimisation and on increasing revenue, primarily by attracting new customers.

The Group's financial objectives, adopted in conjunction with the Group's IPO on 1 December 2016, are firm. This entails organic growth of 3-5 per cent per annum (including minor bolt-on acquisitions) and EBITDA growth of 6-9 per cent per annum during the next three to five years. The Group's ambition is to pay annual dividend of around 50-70 per cent of the net annual profit.

The consolidated financial statements of Arcus ASA are presented in accordance with IFRS (International Financial Reporting Standards).

FINANCIAL DEVELOPMENT

Statement of income

In 2018, the Group's total operating revenue was NOK 2,723 million (NOK 2,575 million in 2017). Increased wine sales, primarily in Sweden and Norway, and a higher number of new customers in Vectura, contributed positively to revenue, while sales of spirits showed a weak increase compared to the previous year, due to low market growth and somewhat lower market shares in some markets.

Consolidated operating costs totalled NOK 2,463 million (NOK 2,292 million). The cost increase is mainly due to a higher cost of sales, which is related to higher sales, but also to a weaker Norwegian krone and Swedish krona against the euro. In addition, logistics costs were somewhat higher, as a consequence of higher Distribution volume. On the other hand, impairment was lower than for the previous year.

In 2018, the Group's operating profit before depreciation (EBITDA) was NOK 307 million, compared to NOK 348 million in 2017. Operating EBITDA (adjusted for non-recurring items) was NOK 313 million, compared to NOK 361 million in 2017. A key reason is the negative currency development, making the Group's purchases denominated in EUR more expensive.

In 2018, the Group's operating profit was NOK 257 million, compared to NOK 273 million in 2017. The decrease is mainly due to the same conditions as described above.

The Group's net financial items amounted to NOK -36 million (NOK -15 million) in 2018. The increase in net financial items is to a great extent driven by revenue recognition of NOK 14 million in 2017 concerning value adjustment of a remaining liability related to synthetic shares and options from prior to the IPO in 2016.

In 2018, the Group's tax costs amounted to NOK 57 million, compared to NOK 71 million in 2017. The effective tax rate was 26 per cent, compared to 27 per cent for the previous year. The lower effective tax rate is due to a lower actual tax rate in the Norwegian company, and lower non-deductible costs.

The parent company Arcus ASA has no operating revenue. The pre-tax profit of the parent company was NOK 79 million, compared to NOK 48 million in 2017. The increase is mainly due to Group contributions of NOK 106 million from the subsidiary, Arcus-Gruppen AS, compared to NOK 65 million in 2017.

Financial position, investments and liquidity

At the end of the year, the Group had brands and goodwill for NOK 1,857 million (NOK 1,862 million). The decrease is mainly due to depreciation, as well as currency fluctuations, to some extent.

At the close of the year, the Group had investments in fixed assets and software for NOK 343 million (NOK 359 million). In 2018, the Group invested NOK 23 million in fixed assets and software, while depreciation of NOK 42 million resulted in a lower book value at the end of 2018 compared to the end of 2017. No significant investments are expected in the coming years.

The deferred tax assets at the end of the year amount to NOK 110 million, compared to NOK 137 million at the end of 2017. The reduction is mainly due to the utilisation of taxable deficits carried forward in Norway in 2018, while the net deferred tax asset is lower, as a consequence of a reduction of the tax rate from 23 per cent to 22 per cent in Norway as from 2019.

At the end of 2018, financial assets totalled NOK 63 million (NOK 60 million).

Total current assets amounted to NOK 2,064 million, compared to NOK 2,114 million at the same time last year. Of this amount, receivables at year-end totalled NOK 1,341 million (NOK 1,519 million).

At the end of 2018, cash and bank deposits were NOK 283 million (NOK 184 million).

Group equity was NOK 1,654 million as at 31 December (NOK 1,669 million). Changes in equity are affected positively by the profit for the year, but reduced by the dividend paid to minority shareholders in the Group and share-holders in the parent company. At year-end, the equity ratio was 37 per cent, which is unchanged from the end of 2017.

The Group is financed through non-current loans of NOK 728 million. In addition, the Group has debt of NOK 169 million related to financial leasing, of which NOK 18 million falls due during 2019. At the end of the year, the Group had non-utilised drawing facilities under the Group cash pool system, but had deposits of NOK 149 million. As at 31 December 2018, the Group's total liabilities amounted to NOK 2,784 million (NOK 2,863 million), of which the interest-bearing debt amounted to 32 per cent.

Consolidated net cash flow from operating activities was NOK 395 million (NOK 200 million). The change is influenced significantly by lower trade receivables due from Vinmonopolet at the end of 2018 than at the end of 2017.

Net cash flow from investment activities was NOK -23 million (NOK -144 million). The positive change in cash flow from investment activities is mainly due to the acquisitions of the Vanlig and Hot n'Sweet brands in 2017.

Net cash flow from financing activities was NOK -261 million (NOK -91 million). The change in cash flow from financing activities is to a great extent influenced by the redemption of drawing on the Group cash pool system by NOK 73 million in 2018, compared to an equivalent drawing increase in 2017.

Holdings of cash and cash equivalents were NOK 283 million (NOK 184 million). Deviations between the company's operating profit and operating cash flow are the Group's financial expenses, changes in working capital and tax paid during the period.

Significant changes in accounting policies

IFRS 15 revenue recognition was introduced as of 1 January 2018. This has entailed insignificant changes to the income statement. See Note 4. IFRS Financial instruments, introduced as of 1 January 2019, has no consequences for Arcus. As from 1 January 2019, IFRS 16, Operational leases is introduced, which entails significant changes in the income statement and statement of financial position. See Note 16 for further information.

Financial risk and risk management

The Board has adopted a financial policy, defining the framework and guidelines for financial risk management within the Group.

Arcus' principal source of income is the core business. The main risk management strategy for the Group is to limit the financial risk created by the core business.

The most important financial risks to which the Group is exposed are associated with credit risk, interest-rate risk, liquidity risk and foreign currency risk.

To a small extent, Arcus uses financial instruments to hedge interest-rate and currency risks. The Group does not use hedge accounting and on initial recognition, financial instruments are recognised as financial instruments at fair value, while changes in value are recognised through profit or loss.

Credit risk

The finance policy stipulates that credit risk must be assessed before establishing credit purchase agreements with new customers. The assessment includes a review of accounting information, as well as other relevant and accessible data, to determine the credit limit and credit terms. Once a relationship has been established with a customer, credit risk and credit limits are continuously assessed in relation to the customer's financial performance and payment history. Outstanding receivables are continuously monitored by the finance department in cooperation with the marketing departments of the individual businesses. A large proportion of the Group's accounts receivable arise from the sale of wines and spirits to the state-owned monopoly outlets in the Nordic region. Credit risk associated with these customers is considered to be non-existent. The Group's credit risk is otherwise spread over a large number of small customers within the hotel, restaurant and café market, as well as a small number of distributors outside the Nordic region.

Interest-rate risk

The Group is exposed to interest-rate risk via financing activities (debt financing and financial leasing liabilities) and investments (bank deposits). At the end of 2018, the Group's non-current liabilities consisted of credit facilities at SEB and financial leasing at Nordea Finans and Volvo Finans. The interest-rate hedging policy entails that up to 50 per cent of the base rate on non-current loans can be hedged. At the end of 2018, none of the Group's interest-bearing debt was hedged. The interest-rate margin on credit facilities at SEB is related to the size of the Group's net interest-bearing debt relative to EBITDA, while the agreement with Nordea Finans involves a fixed interest-rate margin.

Liquidity risk

Liquidity risk is the risk that the Group will not be in a position to service its financial liabilities as they fall due. Arcus must at all times have sufficient liquidity to meet its obligations. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance.

Arcus aims for the greatest possible degree of flexibility in terms of utilising liquid assets as effectively as possible in day-to-day operations. This is achieved through a Group cash pool system with a drawing facility managed by Arcus AS.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. The Arcus Group had no significant investments during 2018, but acquired some minority interests in existing subsidiaries. This acquisition was financed with own liquidity and existing drawing facilities.

The Group entered into a new financial leasing agreement with Volvo Finans in 2018, in conjunction with the replacement of three trucks in Distribution. This increased the debt by NOK 3 million.

Currency risk

The Group is exposed to currency risk as it operates in several countries and makes significant purchases in foreign currencies. The most significant currencies are euro, Danish krone, Swedish krona and US dollar.

The Group's currency exposure can mainly be divided into two groups: cash flow risk and translation risk. The principal objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in Norwegian kroner. It is continuously sought to offset changes in purchase costs from suppliers in functional currency, due to exchange rate fluctuations, by changing sales prices for customers, and by renegotiation of purchase prices from suppliers.

The risk horizon, i.e. the time it takes to compensate for negative currency movements, is generally controlled by the price-adjustment opportunities in relation to the Nordic state monopolies. In Norway, this takes place every fourth month and in Sweden, every sixth month. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions.

Some of the Group's non-current borrowing is undertaken in Swedish kronor, as a natural hedging of cash flows in the form of dividends in Swedish kronor.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rates in the companies' functional currencies. The Group's presentation currency is Norwegian kroner. The Group is therefore further exposed to currency risk on translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged.

ABOUT THE COMPANY

Arcus ASA owns all of the shares in Arcus-Gruppen AS and Vectura AS. The purpose of the company is to manage shares and other company holdings and the Group operates within the business areas of Wine, Spirits and Distribution.

The Wine business area imports, bottles, markets and sells wine in Norway, Sweden and Finland, as well as within tax-free. In 2018, the Wine business area achieved sales of NOK 1,625 million, compared to NOK 1,541 million in 2017. EBITDA (adjusted) was NOK 182 million in 2018, compared to NOK 192 million in 2017. Sales increased as a consequence of adjusting the portfolio towards lighter wines (significant growth for white wine, rosé wine and sparkling wine), and a hot summer throughout the Nordic region. Profitability was undermined by a sustained high EUR rate. The operating profit for 2018 was NOK 167 million, compared to NOK 185 million for 2017.

The Spirits business area imports, produces, bottles, markets and sells wine and spirits primarily in the Nordic region and Germany, but also in other selected export markets. Bottling services are also undertaken for sister companies at the Gjelleråsen facility. In 2018, the Spirits business area achieved sales of NOK 920 million, compared to NOK 913 million in 2017. EBITDA (adjusted) was NOK 145 million in 2018, compared to NOK 183 million in 2017. Lower sales of spirits in Denmark and Germany, and price competition in the low-price segment of the Norwegian market, affected revenue and the result. The operating profit for 2018 was NOK 118 million, compared to NOK 152 million for 2017.

The Distribution business area (Vectura) distributes alcoholic beverages in the Norwegian

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2018 DISTRIBUTED BY COUNTRY

	Norway	Sweden	Denmark	Finland	Germany	Total
Women	92	28	3	8	2	133
Men	253	22	13	13	1	302
Total	**345**	**50**	**16**	**21**	**3**	**435**

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2018 DISTRIBUTED BY BUSINESS AREA

	Men	Women	Total
Spirits	95	46	141
Wine	37	46	83
Arcus-Gruppen AS	24	15	39
Arcus ASA	2	0	2
Vectura AS	144	26	170
Total	**302**	**133**	**435**

market. In 2018, the Distribution business area achieved sales of NOK 308 million, compared to NOK 285 million in 2017. EBITDA (adjusted) was NOK 13 million in 2018, compared to NOK 14 million in 2017. Revenue grew as a consequence of new customers and increased sales of services, while an increased degree of overtime, and leasing of trucks and drivers, reduced the result. The operating profit for 2018 was NOK 1.1 million, compared to NOK 0.7 million for 2017.

The company's registered office is in Nittedal Municipality.

EMPLOYEES AND ORGANISATION

Employees

At year-end, the Group had 428.9 FTEs (full-time equivalents), distributed on 435 permanent employees, of whom 345 are employed in Norway. The parent company Arcus ASA has two employees. The gender distribution for the overall Group was 69.4 per cent men and 30.6 per cent women.

The Board of Directors considers the working environment and cooperation with employee representatives to be good and constructive. The co-involvement of employees is assured at several levels of the Group. Permanent cooperation committees, consisting of employee representatives and representatives from management, have been established in the operating companies in Norway. At these meetings, the management provides information, and engages in discussions when needed. A corporate committee has also been established where the employees' Board members and key representatives meet before each Board meeting to discuss relevant Group-wide issues.

Absence due to illness

The Group has a strong focus on sick leave rates. The Norwegian companies in the Group work closely with the occupational health service and NAV (the Norwegian Labour and Welfare Administration) to reduce sick leave. Individual follow-up and facilitation are important tools in this work. For Arcus-Gruppen AS with subsidiary in Norway, the sick leave rate was 4.6 per cent in 2018, compared to the target of 4.2 per cent. The target for 2019 is unchanged at 4.2 per cent. For Vectura AS, where a lot of manual and physical work is undertaken, sick leave was 8.5 per cent in 2018, which is an improvement of 0.4 percentage points from 2017. The target for 2018 was 7.5 per cent, which is also the target for 2019. Sick leave varies between departments and among business areas.

For the Arcus ASA Group, total sick leave in Norway amounted to 6.4 per cent in 2018, which is an improvement of 0.2 percentage points from 2017. For comparison, the Confederation of Norwegian Enterprise's sick leave statistics for beverage production in Q3 2018 show doctor-certified sick leave at 4.6 per cent and own-reported sick leave at an estimated 2 per cent, which gives total sick leave of 6.6 per cent.

Sick leave statistics and HSE incidents are presented each month at departmental meetings and on bulletin boards, and are considered by the working environment committees.

Working environment and HSE

The Group's operating companies work systematically with health, safety and the environment. Individual action plans are established and followed up centrally, at business area level, and in the working environment committees.

To avoid serious injuries and incidents, it is important to have an organisation and culture that can identify hazardous conditions, register adverse incidents and introduce corrective measures on an ongoing basis. In this respect, the operating companies in the Group have been successful. Adverse incidents are reported regularly. These incidents are reported on a monthly basis to management, employees, working environment committees and safety representatives.

All injuries are investigated to discover the underlying cause and measures are then implemented to avoid similar incidents.

In 2018, there were four injuries resulting in absence due to illness (three in Vectura AS and one in Arcus Norway AS). The injuries were not serious and the persons returned to work after brief periods of absence. The Group's goal for 2019 is zero absence due to injuries.

Equal opportunities

Of the Group's 435 employees at year-end, 30.6 per cent were women and 69.4 per cent were men, after a small decrease in the ratio of women from the preceding year. The management groups of the operating companies all have female members, while the Group Management of Arcus ASA solely consists of men, including the CEOs of Vectura AS and Vingruppen i Norden AB, respectively. At the same time, the Group had 32 per cent female managers.

At the end of 2018, the Board of Directors of the holding company (Arcus ASA) comprised ten Board members, of whom five were women. Three members of the Board of Directors are representatives elected by the employees, and two of these members are women. The proportion of female members of the Board of Directors thereby fulfils the statutory requirements concerning female representation on an ASA's board of directors.

In connection with the local salary settlement in 2018 in Norway, the parties reviewed the situation concerning equal opportunities and equal pay. The local parties agree that satisfactory consideration is made of equal pay and equal opportunities.

Diversity

The Group has a stated policy not to discriminate on the basis of gender, religion, race, sexual orientation, age, disability, or ethnic and/or cultural origin.

At the end of 2018, the employees represented around 30 different languages and approximately 18 per cent of employees did not have a Nordic cultural or ethnic background.

The Group's goal for the operating companies is for them to be workplaces without any form of discrimination or harassment. The Group's Work Regulations and Ethical Rules set out guidelines for this, and good reporting procedures have also been established.

In 2018, a new Plan for Diversity and Inclusion was also drawn up. The plan defines concrete targets and activities. As a Group and employer, Arcus ASA must promote equal opportunities and prevent discrimination of its employees.

The Board of Directors and the management groups of the operating companies are aware of this in relation to recruitment, appointments, salary appraisals and working conditions, as well as through awareness-raising activities.

Ethical guidelines

The Group's ethical guidelines define, clarify and ensure a common business ethics framework to outline the expectations for the ethical and appropriate behaviour of all employees. The Group's ethical guidelines stipulate that Arcus has zero tolerance for discrimination, bullying and corruption. As part of the ethical guidelines, provision is also made for the notification of any misconduct within the Group. Whistle-blowers can use a designated telephone number, established for this purpose. All employees have been made aware of this, and the fact that their anonymity is guaranteed. In 2018, two whistle-blower reports were made.

Data protection
On 25 May 2018, the new EU General Data Protection Regulation (GDPR) entered into force. The key aspects of the existing legislation are continued, with the addition of new regulations comprising extensive new requirements of companies which process personal data. For Arcus, this entailed extensive mapping and documentation of personal data, procedures, systems and documentation related to the processing of all personal data, gap analyses, production and documentation, as well as implementation and operation. Procedures for compliance, control and auditing were also drawn up, so that Arcus handles personal data protection in accordance with GDPR.

Environment
Consideration of the external environment is an important aspect of corporate social responsibility at Arcus. The Group's activities affect the external environment via the production and distribution of its products. Arcus supports a precautionary approach to environmental challenges, and works systematically to reduce the impact of its activities on the external environment. In 2018, the Group set 11 specific KPIs that are to be achieved before 2020. They include KPIs for reduction of carbon dioxide and increased recirculation of waste.

The Annual Report includes a separate report on Arcus' corporate social responsibility in accordance with paragraph 3-3c in the Norwegian Accounting Act , including the current status for each of the 11 KPIs. This is an integrated element of the Annual Report.

Alcohol
Arcus takes a clear stance on responsible alcohol consumption. Our aim is to raise awareness and understanding among all of the target groups which are relevant for Arcus about our corporate approach to alcohol and responsible consumption. This is the background to our "Think before you drink" campaign, launched in the autumn of 2015, and which has become an integral aspect of Arcus' communication strategy. "Think before you drink" is both an internal and external awareness campaign, reaching all employees and all stakeholders in contact with Arcus. In 2017, and again in 2018, Arcus ran a campaign which targeted graduates. The "Think before you drink" message was shared on the graduates' own digital channels. At the celebrations at Tryvann and Tusenfryd in Oslo, 7,000 filled bottles of water were distributed to graduates, with ample opportunity to refill the bottles. This was 1,000 more bottles than in 2017. Arcus was not identified as the originator of the initiative.

As part of the same strategy, in 2018 a decision was taken to fit alcolocks on all lorries and new company cars. AKAN (organisation to prevent alcohol abuse at work) committees and AKAN contacts have also been established in the operating companies.

The Annual Report includes a separate report on Arcus' organisation.

Ownership
On 1 December 2016, Arcus ASA was listed on the Oslo Stock Exchange, and at year-end 2017/18 had 2,132 shareholders. At the close of the year, three shareholders each held more than 5 per cent of the company's shares: Canica AS (42.1 per cent), Geveran Trading Co Ltd (9.9 per cent) and Verdipapirfondet DNB Norge (IV) (5.3 per cent). Quarterly results have been presented in Oslo for each quarter. In addition, the result for Q4 2017 was presented to investors in Madrid, London and Frankfurt, and the result for Q1 2018 in Stockholm. In addition, one-to-one investor meetings were held in Oslo on a regular basis throughout the year, as well as investor meetings via Skype with investors in London.

The Annual Report includes a separate report on Arcus' corporate governance compliance. This is an integrated element of the Annual Report.

Continued operations
In accordance with Section 3-3a of the Norwegian Accounting Act, it is confirmed that the company is a going concern. The basis for this lies in the long-term plans and strategic choices that have been made.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR
No significant events have occurred after the close of the financial year, between the date of the statement of financial position and the Board of Directors' consideration of the financial statements for 2018.

APPROPRIATION OF PROFITS
The parent company Arcus ASA reported a profit for the year of NOK 55.4 million in 2018, compared to NOK 31.0 million in 2017. The Board proposes the allocation of dividend of NOK 1.66 per share, in total NOK 113 million, and that the profit of NOK 55.4 million be transferred to other equity.

FUTURE PROSPECTS
In conjunction with the IPO, the company published its long-term growth targets, with organic revenue growth of 3-5 per cent, including minor bolt-on acquisitions, and EBITDA growth of 6-9 per cent in the next three to five years. The Board continues to set these targets as the basis for the Group's continued development.

Gjelleråsen 20 March 2019

Michael Holm Johansen
Chairman of the Board

Stein Erik Hagen

Hanne Refsholt

Eilif Due

Trond Berger

Leena Saarinen

Erik Hagen

Konstanse M. Kjøle

Ann Therese Jacobsen

Ann-Beth Freuchen

Kenneth Hamnes
Group CEO

BOARD OF DIRECTORS

Michael Holm Johansen
Chairman of the Board

Stein Erik Hagen
Board member

Hanne Refsholt
Board member

Eilif Due
Board member

Trond Berger
Board member

Leena Saarinen
Board member

Ann-Beth Freuchen
Board member

Erik Hagen
Board member

Konstanse M. Kjøle
Board member

Ann Therese Jacobsen
Board member

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CONSOLIDATED FINANCIAL STATEMENTS

Statement of income 01.01. -31.12.

Figures in NOK 1,000	Note	2018	2017
OPERATING REVENUE AND EXPENSES			
Sales revenue	4,5	2,672,615	2,530,126
Other operating revenue	4,5	50,586	44,934
Total operating revenue	**4,5**	**2,723,201**	**2,575,060**
Net gain on sale of fixed assets	3,14,15	365	30
Cost of sales	6,18	-1,577,306	-1,408,524
Salaries and other personnel costs	8,9,10	-426,644	-417,412
Depreciation and amortization	14,15	-50,005	-51,581
Impairment	14,15	0	-22,700
Other operating expenses	6,7,16	-409,330	-391,699
Share of profit from associated companies and jointly controlled entities	13	2,311	3,286
Operating profit before other income and expenses		**262,592**	**286,460**
Other income and expenses	7, APM	-5,296	-13,167
Operating profit		**257,296**	**273,293**

Figures in NOK 1,000	Note	2018	2017
FINANCIAL INCOME AND EXPENSES			
Interest income	11	12,906	6,654
Other financial income	11,22	27,740	41,304
Interest costs	11	-39,029	-33,127
Other financial costs	11,22	-37,733	-29,374
Net financial profit/loss		**-36,116**	**-14,543**
PROFIT BEFORE TAX		**221,180**	**258,750**
Tax	12	-56,763	-70,528
Profit for the year		**164,417**	**188,222**
The profit for the year is allocated to			
Non-controlling interests	1	5,954	6,944
Parent company shareholders		158,463	181,278
		164,417	**188,222**
Earnings per share (NOK)			
Earnings per share	20	2.33	2.66
Diluted earnings per share	20	2.25	2.62

Statement of other comprehensive income 01.01. -31.12.

Figures in NOK 1,000	Note	2018	2017
Profit for the year		164,417	188,222
Items that will not be reclassified against the statement of income:			
Estimate deviations, pensions	10	9,900	4,439
Total items that will not be reclassified against the statement of income, before tax		**9,900**	**4,439**
Tax on items that will not be reclassified against the statement of income	12	-2,277	-1,065
Total items that will not be reclassified against the statement of income, after tax		**7,623**	**3,374**
Items that may be reclassified against the statement of income:			
Translation differences on translation of foreign subsidiaries		6,967	73,207
Total items that may be reclassified against the statement of income, before tax		**6,967**	**73,207**
Tax on items that may be reclassified against the statement of income		0	0
Total items that may be reclassified against the statement of income, after tax		**6,967**	**73,207**
TOTAL OTHER COMPREHENSIVE INCOME		14,590	76,581
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		179,007	264,803
The total comprehensive income for the year is allocated as follows			
Non-controlling interests		5,214	8,127
Parent company shareholders		173,793	256,676
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		179,007	264,803
Total comprehensive income per share (NOK)			
Earnings per share	20	2.55	3.77
Diluted earnings per share	20	2.47	3.70

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2018	2017
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	15	1,042,130	1,042,596
Brands	15	815,009	819,702
Software	15	26,752	29,151
Total intangible assets		**1,883,891**	**1,891,449**
Tangible assets			
Machinery and equipment	14	293,273	304,534
Fixtures and fittings, tools, office equipment etc.	14	17,652	19,614
Assets under construction	14	4,914	5,678
Total tangible assets		**315,839**	**329,826**
Deferred tax assets	**12**	**110,158**	**136,786**
Financial assets			
Investments in associated companies and jointly controlled entities	13	61,291	58,670
Other investments in shares		200	200
Other non-current receivables	17	1,581	1,205
Total financial assets		**63,072**	**60,075**
Total fixed assets		**2,372,960**	**2,418,136**

Figures in NOK 1,000	Note	2018	2017
Current assets			
Inventories	18	441,117	410,759
Receivables			
Trade receivables	2	1,260,709	1,432,164
Prepayments to suppliers	17	52,999	64,570
Other receivables	12,17	26,983	22,325
Total receivables		**1,340,691**	**1,519,059**
Bank deposits	2,19	282,594	184,415
Cash and cash equivalents		**282,594**	**184,415**
Total current assets		**2,064,402**	**2,114,233**
TOTAL ASSETS		**4,437,362**	**4,532,369**

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2018	2017
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	20	1,356	1,360
Share premium		770,743	770,743
Total paid-in equity		**772,099**	**772,103**
Retained earnings			
Other equity		878,970	878,489
Total retained earnings		**878,970**	**878,489**
Non-controlling interests	1	2,965	18,823
Total equity		**1,654,034**	**1,669,415**
Liabilities			
Provisions			
Deferred tax liability	12	101,845	101,032
Pension obligations	10	21,077	30,552
Liabilities at fair value through profit or loss	2,22	74,218	0
Other provisions	23	92	320
Total provisions		**197,232**	**131,904**

Figures in NOK 1,000	Note	2018	2017
Other non-current liabilities			
Debt to financial institutions	2,21	874,895	909,218
Other non-current liabilities		647	0
Total other non-current liabilities		**875,542**	**909,218**
Current liabilities			
Debt to financial institutions	2,21	18,063	90,071
Trade payables		576,783	603,884
Tax payable	12	0	2,128
Unpaid public duties	24	930,452	928,005
Other current liabilities	23,24	185,256	197,744
Total current liabilities		**1,710,554**	**1,821,832**
Total liabilities		**2,783,526**	**2,862,954**
TOTAL EQUITY AND LIABILITIES		**4,437,362**	**4,532,369**

Gjelleråsen, 20 March 2019

Michael Holm Johansen, Chairman of the Board
Stein Erik Hagen
Hanne Refsholt
Eilif Due
Trond Berger
Leena Maria Saarinen
Erik Hagen
Konstanse M. Kjøle
Ann Therese Jacobsen
Ann-Beth Freuchen
Kenneth Hamnes, Group CEO

Statement of cash flows 01.01. -31.12.

Figures in NOK 1,000	Notes	2018	2017
CASH FLOWS FROM OPERATIONS			
Pre-tax profit		221,180	258,750
Depreciation and amortisation	14,15	50,005	74,281
Share of profit from associated companies and jointly controlled entities	13	-2,311	-3,286
Dividends received from associated companies and jointly controlled entities	13	445	0
Taxes paid	12	-39,991	-33,221
Interest costs during the period		37,406	31,475
Pension costs and other provisions without cash effect	3	197	591
Value changes and other costs without cash effect	3	12,155	-4,444
Profit/loss on sale of fixed assets and intangible fixed assets	3	-365	-30
Unrealised gains	3	1,195	19,195
Change in inventories	3,18	-30,358	-31,781
Change in trade receivables	3	171,455	-43,939
Change in trade payables	3	-27,101	-45,437
Change in other current assets and other liabilities	3	624	-22,256
Net cash flow from operational activities		**394,536**	**199,898**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments on acquisition of intangible fixed assets	15	-3,270	-124,820
Payments on purchase of tangible fixed assets	14	-19,812	-15,894
Proceeds from sale of tangible fixed assets	3,14	365	30
Payments on acquisition of business	26	0	-2,752
Payments on acquisition of other financial investments	3	-119	-454
Net cash flow from investment activities		**-22,836**	**-143,890**

Figures in NOK 1,000	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of non-current interest-bearing debt to financial institutions	2,21	-17,370	-15,719
Change in other non-current loans		-360	0
Change in overdraft facility	21	-72,700	72,700
Interest cost paid during the period	3	-37,302	-31,454
Payments for acquisition of non-controlling interests		-6,150	-12,913
Payment for purchase of own shares		-8,303	0
Payment of dividends	1,3	-118,716	-103,515
Net cash flow from financing activities		**-260,901**	**-90,901**
Effect of exchange rate fluctuations on cash and cash equivalents		-12,620	19,923
Effect of exchange rate fluctuations on cash and cash equivalents		**-12,620**	**19,923**
Net change in cash and cash equivalents		**98,179**	**-14,970**
Holdings of cash and cash equivalents as at 01.01.		184,415	199,385
Holdings of cash and cash equivalents as at 31.12.	19	**282,594**	**184,415**

Statement of changes in equity

Figures in NOK 1,000	Share capital	Portfolio of own shares	Share premium	Translation differences	Share-based payment fund	Other retained earnings	Total for owners of the parent company	Non-controlling interests	Total for the Group
Equity as at 31.12.2016	1,360	0	770,743	228,788	606	487,190	1,488,687	13,903	1,502,590
Profit for the year 2017	0	0	0	0	0	181,278	181,278	6,944	188,222
Total other comprehensive income 2017	0	0	0	72,024	0	3,374	75,398	1,183	76,581
Total profit for the year 2017	**0**	**0**	**0**	**72,024**	**0**	**184,652**	**256,676**	**8,127**	**264,803**
Transactions with owners 2017									
Share-based payment	0	0	0	0	7,898	0	7,898	0	7,898
Payment of dividend	0	0	0	0	0	-99,994	-99,994	-3,521	-103,515
Changes in non-controlling interests	0	0	0	0	0	-2,675	-2,675	314	-2,361
Total transactions with owners 2017	**0**	**0**	**0**	**0**	**7,898**	**-102,669**	**-94,771**	**-3,207**	**-97,978**
Equity as at 31.12.2017	1,360	0	770,743	300,812	8,504	569,173	1,650,592	18,823	1,669,415
Profit for the year 2018	0	0	0	0	0	158,463	158,463	5,954	164,417
Total other comprehensive income 2018	0	0	0	7,707	0	7,623	15,330	-740	14,590
Total profit for the year 2018	**0**	**0**	**0**	**7,707**	**0**	**166,086**	**173,793**	**5,214**	**179,007**
Transactions with owners 2018									
Purchase of own shares	0	-4	0	0	0	-8,299	-8,303	0	-8,303
Share-based payment	0	0	0	0	6,722	0	6,722	0	6,722
Payment of dividend	0	0	0	0	0	-112,919	-112,919	-5,797	-118,716
Changes in non-controlling interests	0	0	0	0	0	-61,534	-61,534	-12,557	-74,091
Transfer of profit for the year from minority to majority*	0	0	0	0	0	2,718	2,718	-2,718	0
Total transactions with owners 2018	**0**	**-4**	**0**	**0**	**6,722**	**-180,034**	**-173,316**	**-21,072**	**-194,388**
Equity as at 31.12.2018	1,360	-4	770,743	308,519	15,226	555,225	1,651,069	2,965	1,654,034

Within the Group's wine activities, several of the subsidiaries' managing directors have non-controlling interests. Most of the managing directors have put options regarding their shares, which they may exercise at a given future time. The Group does not have control of these shares at the end of the period, nor does it have control of the possible exercising of the put options. The value of the put options are recognized as liabilities at fair value at the end of the year, and has reduced the non-controlling interest. The share of profit of the year is presented as profit to the non-controlling interest in the statement of income. Due to the fact that the value of the put options are recognized as liabilities at fair value, the share share of profit to the non-controlling interest, adjusted for any distributed dividend and exchange rate translation differences, are transferred from the non-controlling interests' share of equity to the owners of the parent company's share of equity at the end of every reporting period.

The remaining book value of non-controlling interests is related to non-controlling interests for which no sales options exist.

Brief history of the Group

Arcus ASA is registered and domiciled in Norway, and located at Destilleriveien 11 in Gjelleråsen in Nittedal Municipality, just north of Oslo. The consolidated financial statements include the parent company and subsidiaries (together referred to as "Arcus" or the "Group", and individually as a "Group company") as well as the Group's holdings in associated companies. The Group's principal activity is the import, production, marketing, sale and distribution of wine and spirits.

Historical development

The Group has carried out the following important transactions in recent years:

2018

- In Q2, the Group's Norwegian spirits activity established a new subsidiary, Atlungstad Håndverksdestilleri AS, which as from 2019 will take over the production-related activity at Stange in Hedmark.
- In June, the Group acquired a further 10.1 per cent interest in Symposium Wines AS, which is part of the Group's Norwegian wine activities. The Group thereafter has an interest of 90.1 per cent.
- In Q3, the Group's spirits activity in Sweden established a new subsidiary, Stockholms Spritfabrik AB, which will operate agency activities for spirits in Sweden.
- In Q4, the Group's wine activity in Norway established three new subsidiaries: Classic Wines AS, Creative Wines AS and Arcus Brand Lab AS. The first two companies will conduct agency activities, while Arcus Brand Lab AS will be part of the company with its own brands.
- In Q4, the Group's Swedish wine activity established a new subsidiary, New Frontier Wines AB, which will be included in the Swedish wine agency activity.

2017

- In January, the Group acquired the remaining 50 per cent interest in Det Danske Spiritus Kompagni A/S. Det Danske Spiritus Kompagni A/S thereby became a wholly-owned subsidiary in the Group's spirits activities.
- In January, the Group established Vingruppen Finland Oy, as a wholly-owned subsidiary of Vingruppen i Norden AB.
- In February, the Group acquired the remaining 9.9 per cent interest in Excellars AS. Excellars AS thereby became a wholly-owned subsidiary in the Group's wine activities.
- In June, the Group increased its ownership of Valid Wines Sweden AB from 97.0 per cent to 100.0 per cent on the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares. At the same time, the Group sold 16.9 per cent of the shares to the company's general manager, so that after the transaction the Group has an ownership interest of 83.1 per cent in Valid Wines Sweden AB.
- In September, the Group acquired 100 per cent of the shares in the Norwegian company BevCo AS, which as from the same date is part of the Group's spirits activities. Among other things, the company has the distribution rights for Dooley's Toffee in Norway.
- In October, the Group acquired the Vanlig brand, which comprises a vodka and a gin product. The Group took over sales of this product as from the same date, while production was taken over during Q1 2018.
- In December, the Group acquired the Hot n'Sweet brand, which is a vodka shot. The Group took over sales of this product as from 1 January 2018, while production was taken over during Q1 2018.

2016

- In February, the Group increased its ownership of Excellars AS from 51.0 per cent to 90.1 per cent by the subsidiary Vingruppen AS' acquisition of minority shares.
- In February, the Group increased its ownership of Wineagency Sweden AB from 80.0 per cent to 90.0 per cent on the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In July, the Group increased its ownership of Wineworld Sweden AB from 80.0 per cent to 90.0 per cent on the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In August, the Group acquired the Dworek vodka brand.
- In December, the Group increased its ownership of Vingruppen i Norden AB from 99.37 per cent to 100.0 per cent on the subsidiary VinGruppen Sweden Holding AB's acquisition of the remaining minority shares.
- Arcus-Gruppen Holding AS was restructured as a public limited liability company, and changed its name to Arcus ASA, before the company's listing on the Oslo Stock Exchange on 1 December.

2015

- In February, acquired the aquavit brand Snälleröds in Sweden.
- In April, acquired the wine activity from Fondberg in Finland. Changed the name of the company to Social Wines Oy.
- In September, acquired 70 per cent of the shares in a recently-founded Norwegian wine company, Heyday Wines AS.
- In Q4, reorganised the ownership of Vingruppen i Norden AB, by selling the shares to a newly-established wholly-owned holding company in Sweden called VinGruppen Sweden Holding AB.
- Discontinued production in Aalborg and moved the production and bottling of the Danish brands (Aalborg, Malteserkreutz and Gammel Dansk) to customised facilities at Gjelleråsen.

2014

- Established Vingruppen AS as new holding structure for the wine business in Norway.

2013

- In January, acquired all the shares in Arcus Denmark A/S from Pernod Ricard, which included the Aalborg Aquavit and Gammel Dansk brands, and all the shares in Arcus Deutschland GmbH, which owns the Malteserkreutz brand.

2012

- Completed the new production and distribution facility and head office at Gjelleråsen, and moved the business there.

2011

- Acquired 28.2 per cent of the shares in Vingruppen i Norden AB, increasing the holding from 62.5 per cent to 90.7 per cent. At the same time, entered into an option agreement for the remaining 9.3 per cent.
- Acquired 51 per cent of the shares in Excellars AS, with an option for the remaining 49 per cent.
- Swapped 34 per cent of the shares in SAS de L'île Madame for 32.6 per cent of the shares in Tiffon SA. Acquired a further 106 shares and increased the holding in Tiffon SA to 34 per cent.

2010

- Implemented an agreement on sale of Gjelleråsen Prosjekt 1 AS.
- Started construction of a new production and distribution facility and head office at Gjelleråsen.

2009

- Acquired the brands Star Gin, Red Port and Dry Anise from Pernod Ricard.
- Acquired 80 per cent of the company Symposium Wines AS.

Accounting policies

The consolidated financial statements for 2018, including comparative information, have been prepared in accordance with IFRS applicable as at 31 December 2018, and as described in the note on the accounting policies. Applicable IFRS have been applied retrospectively.

The annual financial statements were adopted by the Board of Directors on 20 March 2019. The Group's head office is located at Gjelleråsen in Nittedal Municipality and the core activities are the production, sale and distribution of alcoholic beverages. The Group's domestic market is the Nordic region, but the Group also has sales to other countries, mainly Germany and the USA.

Arcus ASA is listed on the Oslo Stock Exchange. The price on 31 December 2018 was NOK 41.00 per share, compared to NOK 46.50 per share at the end of 2017.

NEW ACCOUNTING STANDARDS

During the year, adjustments to framework conditions from IFRS related to revenue recognition (IFRS 15) affected the Group's accounts to a certain degree. See further details of this in Note 4 to the consolidated financial statements. In addition the Group has from 2018 implemented IFRS 9. The implementation of IFRS 9 has not led to any significant changes for the Group.

The most significant changes in future accounting standards that will affect the Group, is presented below.

Adopted IFRS and IFRIC with future effective dates:

The standards and interpretations adopted up to the date of presentation of the consolidated financial statements, but where the effective date is in the future, are shown below. The Group's intention is to implement the relevant changes on the effective date, on the assumption that the EU approves the changes before the presentation of the consolidated financial statements.

CHANGES RELEVANT TO THE ARCUS GROUP:
IFRS 16 Leases

IFRS 16 Leases replaces the existing IFRS standard for leases, IAS 17 Leases. IFRS 16 sets out principles for recognition, measurement, presentation and disclosure of leasing agreements for both parties to a leasing agreement, i.e. the customer (lessee) and provider (lessor). The new standard requires the lessee to recognise the assets and liabilities under most leasing agreements, which is a significant change from current principles. The standard came into force on 1 January 2019.

See further details of how IFRS 16 will affect the Group's accounts in Note 16 to the consolidated financial statements.

Other changes

Other changes resulting from new standards that have yet to come into effect will not influence or have any significant effect on the consolidated financial statements.

Accounting policies

Consolidation principles

The consolidated financial statements comprise Arcus ASA and subsidiaries in which Arcus ASA has control, and present the overall financial results, the overall financial position, and the overall cash flows, as one financial entity. Control takes place when the Group is entitled to variable returns from an investment object, and can also influence relevant activities which affect the returns on the investment object. Normally this will be the company in which Arcus ASA, either directly, or indirectly via subsidiaries, owns more than 50 per cent of the shares with voting rights. In the consolidated financial statements, this Group is referred to as Arcus or the Arcus Group.

See Note 1 for an overview of all the companies included in the consolidation.

In the consolidated financial statements all intra-Group receivables and internal transactions between companies within the Group have been eliminated. The cost price of shares in subsidiaries is eliminated against equity at the time of acquisition. Accounting values including goodwill and excess values associated with foreign subsidiaries are translated from the functional currency to NOK according to the exchange rate at the close of the financial year.

Goodwill is included in the consolidated financial statements as an intangible asset.

Any changes in the Group's ownership of a subsidiary, without any loss of control, is recognised as an equity transaction. If the Group loses control of a subsidiary, underlying assets (including goodwill), debt, minority interests and other equity components are deducted, while gains and losses are recognised in the income statement. Any remaining investment is recognised at fair value.

Non-controlling interests

Non-controlling interests' share of profit after tax is shown on a separate line after the Group's profit for the year. Non-controlling interests' share of equity is shown on a separate line as a part of the Group's equity.

In some of the subsidiaries with non-controlling interests, there are put options related to the non-controlling interests, where the Group does not have control of the non-controlling interests before the options are exercised, nor does it have control of whether the options are exercised, or when this may have taken place. The value of such put options is recognized as liabilities at fair value in the statement of financial position, and reduces the non-controlling interests' share of equity.

The profit is presented as the non-controlling interests' share of profit in the statement of income, but since the Group has recognized the liability on the put options against the minority's share of equity, the profit, adjusted for distributed dividend and translation differences, is transferred to the majority's share of equity at the end of each reporting period.

Currency

All transactions in foreign currency are translated to functional currency as of the date of the transaction. Monetary items in foreign currency are translated as of the close of the financial year to functional currency using the exchange rate as of the close of the financial year.

The Group's presentation currency is NOK, which is also the parent company's functional currency.

The functional currency of subsidiaries is the currency in which the subsidiary reports its financial statements. On consolidation of subsidiaries that have a functional currency other than NOK, items of income and expenses are converted to the Group's presentation currency in accordance with average translation rates. This means that at the end of each period, items of income and expenses are translated at the average exchange rate to date in the year. For the statement of financial position, including excess value and goodwill, the closing exchange rate as of the close of the financial year is used. Currency differences arising on consolidation of entities with another functional currency are attributed to equity and presented as other comprehensive income in the consolidated statement of other comprehensive income. On disposal of subsidiaries, accumulated translation differences associated with the subsidiary are charged to the statement of income.

Investments in associated companies and jointly controlled entities
Associated companies are companies in which the Group has significant influence, normally between a 20 and a 50 per cent holding. The equity method is used for associated companies in the consolidated financial statements. Excess value analysis has been performed with regard to associated companies. The share of profit is based on the profit after tax in the company in which investment has been made, with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired holding of capitalised equity. The share of profit is shown in the statement of income on a separate line before operating profit and the investment is shown as a line under financial fixed assets.

Jointly controlled companies are investments in which the Group has an agreement on joint control over an entity together with one or more other parties, where none of them has decisive influence and all strategic, financial and operational decisions concerning the entity require unanimity between the parties. The share of profit is based on profit after tax in the company in which investment has been made, with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired holding of capitalised equity. The share of profit is shown in the statement of income on a separate line before operating profit and the investment is shown as a line under financial fixed assets.

As of 31/12/2019, the following exchange rates have been used when translating income and financial position figures from subsidiaries with functional currencies other than NOK:

Exchange rates		2018	2017
EUR average rate	Income statement items	9.6033	9.3326
EUR closing rate	Financial position items	9.9448	9.8510
SEK average rate	Income statement items	0.9365	0.9684
EUR closing rate	Financial position items	0.9711	0.9992
DKK average rate	Income statement items	1.2885	1.2546
DKK closing rate	Financial position items	1.3319	1.3231

Business mergers
Business mergers in the Group are treated according to the acquisition method and present the Group as a single entity. On acquisition, the cost price of the acquired business is allocated so that the consolidated opening statement of financial position reflects the estimated fair value of the acquired assets and liabilities. To determine fair value on acquisition, alternative methods of determining fair value must be used for assets for which there is no active market. Added value in excess of what is attributable to identifiable assets and liabilities is reported as goodwill. If the fair value of the equity in the acquired company exceeds the consideration, a reassessment is made of the valuation of observable assets and liabilities. If the reassessment reveals no discrepancies, the difference is recognised as income as at the acquisition date. The allocation of the cost price of the business merger must be changed if new information is revealed about the fair value applicable at the time of acquisition and up until the final excess value analysis. This must take place within 12 months of the acquisition date.

With each business acquisition, the minority interest will be measured at fair value, and minorities' share of goodwill is capitalised in the consolidated statement of financial position.

On stepwise acquisition of subsidiaries, the basis is the value of assets and liabilities on the date of the establishment of the Group. Subsequent acquisition of ownership of existing subsidiaries in addition to the majority interest will not affect the assessment of assets or liabilities.

Income recognition principles
The Group's income recognition principles are presented in a separate note (Note 4) to the consolidated financial statements.

Other income and expenses
To provide more information in the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. See also the detailed specification of what these items include in the notes relating to the individual line items.

Inventories
Inventories are valued at the lower of acquisition cost/production cost and net selling value, where net selling value is calculated as the selling price in a transaction with market participants on the measurement date less selling expenses. Purchased inventories are valued at acquisition cost according to the principle of weighted average, with deduction for obsolescence, while inventories produced in-house are valued at production cost according to the principle of full costing, with deduction for obsolescence.

Prepayments to suppliers
Prepayments to suppliers concern the financing of the purchase of inventory for individual partners. Prepayments are stated at nominal value after deduction for provisions for expected losses. Provisions for losses are made on the basis of identified indicators of impairment.

Cash and cash equivalents
Cash and cash equivalents include cash, bank deposits, balances in the Group cash pool system and other means of payment with a due date less than three months from the acquisition date.

The Group's cash pool system is connected with cash and bank overdrafts within the same cash pool system and is presented net.

The Group cash pool system is managed by the parent company, Arcus ASA.

Property, plant and equipment
Tangible fixed assets are capitalised at cost price less accumulated depreciation and accumulated loss on non-transitory impairment. Depreciation is calculated and taken to expenses from the date the fixed asset is taken into use, and is calculated on the basis of expected useful life, taking account of estimated residual value.

Different rates of depreciation are used for a fixed asset's components if these have different economic lives. Assets under construction are not depreciated. Depreciation is only taken to expenses when the asset is ready for use. Profit and loss on sale of fixed assets are determined as the difference between the selling price and the book value at the time of sale. Profits on sales of fixed assets are recognised as operating income and losses as operating expenses. If there are indications of impairment, the amount recoverable is estimated in order to assess any loss through the impairment. If the book value exceeds the amount recoverable, the asset is written down to recoverable value, while the remaining depreciation period is maintained (breakpoint solution). Depreciation methods, residual values and estimated lifetime are continuously assessed.

Intangible assets
Intangible assets comprise brands, software and goodwill. Intangible assets are capitalised at cost price with deduction for accumulated depreciation and accumulated impairment in the event of non-transitory impairment.

Intangible assets with limited useful lives are depreciated by the straight-line method over the expected useful life.

The capitalised value of goodwill, brands and other intangible assets with indeterminate lifetime is tested for impairment at least once a year, or more often if there are indications that the value of the asset has decreased. This requires estimates of the recoverable amount to cash-generating units to which goodwill and other intangible assets are attributed.

To determine the recoverable amount, the Group estimates expected future pre-tax cash flows from the cash-generating unit and applies appropriate discount rates in order to calculate the present value of future cash flows. Cash flows for brands are calculated on the basis of a market-based "relief from royalty" method before tax. See Note 15 for a more detailed description of this model.

Expectations regarding future cash flows will vary over time. Changes in the market conditions and expected cash flows may cause losses in the event of impairment in the future. The most important assumptions of significance to the present value of the cash flows associated with the investments are future profits and growth, as well as the discount rate used.

Pensions
Net pension costs for defined benefit plans comprise the period's service cost, including future growth in salaries and interest rates on the estimated obligation, less expected returns on the pension assets. Prepaid pension is shown as a non-current asset in the statement of financial position where it is probable that the over- financing can be used or repaid. Correspondingly, a non-current liability is shown in the accounts when the pension obligation is greater than the pension assets. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations), are recognised against equity and are presented in the statement of other comprehensive income.

The Group also has defined contribution pension plans, schemes whereby the company pays contributions on an ongoing basis to the employees' individual pension plans. Ongoing premium invoices of this kind are expensed as salaries and other personnel costs.

Restructuring
Provisions for restructuring are recognised as expenses when the programme has been adopted and announced and the costs are identifiable and quantifiable. Provisions linked to restructuring are included as other provisions for liabilities calculated at present value. Agreements securing future work input are recognised as expenses over the period in which the work input is delivered.

Taxes
The tax expense comprises both tax payable and the change in deferred tax. Tax payable is based on taxable income for the year. Taxable income is different from the pre-tax profit as presented in the statement of income because of income and expenditure items that are not taxable/deductible (permanent differences), and the change in differences in taxable and accounting accruals (temporary differences). Tax payable is calculated on the basis of tax rates that had been adopted at the end of the period.

Deferred tax is capitalised on the basis of the temporary differences and any deficit to be carried forward existing at the end of the financial year and that involves increased or reduced future tax payable, when these differences are reversed in future periods. Temporary differences are differences between accounting and taxable results arising during a period and are reversed during a later period. Deferred tax is calculated on the basis of nominal tax rates (rates adopted as of the close of the financial year in the individual country) multiplied by temporary differences and the deficit to be carried forward. Deferred tax assets are capitalised when the probability exists that future taxable income will enable utilisation of the asset.

Share-based payment
The Group has two share-based incentive schemes for senior executives, and a general share savings programme for all employees.

The costs related to the two share-based incentive schemes for senior executives are accrued during the vesting period, which is the period between the allocation date and the date of receipt. The costs which are accrued are the calculated value of the matching shares or options as of the allocation date, and this value is not adjusted during the vesting period. These costs are booked as personnel costs, set off to Group equity.

The related employer tax is in principle accrued during the same period. The costs of the employer tax in each period are calculated on the basis of the fair value of the shares or options. The costs for the period comprise the change in provisions, and are booked as personnel costs, set off as debt in the statement of financial position.

The costs related to these programme are recognised in accordance with IFRS 2.

The general share savings programme for all employees is based on the Group selling shares to the employees below market value. The costs related to this programme are recognised by booking the difference between the market value of the shares and the purchase price for the employees as personnel costs.

Classification principles
Other assets included in the operating cycle or falling due within 12 months are classified as current assets. Remaining assets are classified as fixed assets.

Liabilities included in the operating cycle or falling due within 12 months, where there is no unconditional right to defer settlement, are classified as current liabilities. Remaining liabilities are classified as long term.

Proposed dividend/Group contributions are capitalised in the statement of financial position as a liability when the Group has an irrevocable obligation to make dividend payments/Group contribution, normally after adoption by the annual General Meeting.

Measurement and classification of financial assets and liabilities
IFRS 9 (Financial instruments) replaces IAS 39 (Financial instruments – recognition and measurement) from the annual financial statements as from 1 January 2018. This new standard has combined all three aspects concerning recognition of financial instruments in the accounts: classification and measurement; impairment and hedge accounting.

The Group has implemented IFRS 9 prospectively, as from 1 January 2018. This means that the Group has not reviewed the comparable information, which is still reported in accordance with IAS 39. No differences have arisen on the introduction of IFRS 9, so that nothing is carried directly to equity. The change in IFRS 9 has entailed that financial instruments have been classified in accordance with new categories, and the nature of these changes is described below.

(a) Classification and measurement
In accordance with IFRS 9, debt instruments are measured at fair value through profit or loss, amortised cost, or fair value through total comprehensive income (OCI). The classification is based on two criteria: the Group's business model for management of assets; and whether the instrument's contractual cash flows solely represent "payment of principal and interest". This assessment was made as at 1 January 2018.

The valuation of whether contractual cash flows for debt instruments solely comprise principal and interest was factually based on initial recognition of the assets.

Financial instruments at fair value via profit or loss
Financial instruments are recognised in the statement of financial position when the Group has become party to the instrument's contractual provisions, and deducted when the contractual rights or obligations are fulfilled or cancelled, or have expired or been transferred. Financial instruments are classified as current assets if the expected settlement date is within 12 months of the close of the financial year, and as non-assets if the settlement date is later than 12 months after the close of the financial year. Derivatives are classified as financial instruments at fair value through profit or loss, unless they form part of a hedge. Assets and liabilities in this category are classified as current assets or current debt if it is expected that they will be settled within 12 months; otherwise they are classified as financial assets or non-current debt.

Debt instruments at amortised cost
Assets in the category of debt instruments at amortised cost are financial assets that are not derivatives and which have contractual cash flows which solely represent the principal and any interest, and are not traded in an active market. Any value changes as a consequence of interest rate changes are not recognised.

They are classified as current assets unless they fall due more than 12 months after the close of the financial year. Financial assets in the category of debt instruments at amortised cost comprise trade receivables and other receivables, as well as cash and cash equivalents in the statement of financial position. Financial liabilities in the category of debt instruments at amortised cost are debt to financial institutions, trade payables and other current liabilities.

Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Sold accounts receivable that are included in the factoring agreement are presented as reduced accounts receivable in the statement of financial position.

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Financial liabilities are recognised at amortised cost based on an effective interest-rate method. Transaction costs (arrangement charges) are capitalised in the statement of financial position as part of the book value of the loan, and depreciated over the term of the loan (amortised cost). Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year. For measurement of financial liabilities at fair value, see measurement of financial instruments in Note 2.

New guidelines for classification and measurement of financial instruments in accordance with IFRS 9 did not have any significant impact on the Group. The Group continued to apply fair value measurement to all financial assets previously recognised at fair value through profit or loss, in accordance with IAS 39. The following changes have been made to the classification of the Group's financial assets:

- Trade receivables and other non-current financial assets classified as Lending and receivables as at 31 December 2017 are recognised in order to gather contractual cash flows and lead to cash flows that solely concern payment of principal and interest. As from 1 January 2018, these are classified and measured as Debt instruments at amortised cost.
- Equity investments in non-listed companies classified as assets available for sale as at 31 December 2017 are classified and measured as financial instruments at fair value through other comprehensive income (OCI) as from 1 January 2018. The Group chose to classify its non-listed equities investments in accordance with this category, since the intention is to hold these investments for the foreseeable future. No impairment was recognised for these investments in earlier periods.

There are no changes in classification and measurement for the Group's financial liabilities.

(b) Write-down of expected losses on receivables and debt.
A significant share of the Group's revenue is associated with the state monopolies in the Nordic region, where there is not considered to be any credit risk. The Group's credit risk is otherwise spread over a large number of small customers within the HORECA market, as well as a small number of distributors outside the home markets.

On this basis, the Group applies a simplified approach to the calculation of expected credit losses. The Group does not track changes in credit risk, but instead assesses losses on the basis of the experienced credit loss on each reporting date. The Group has established a provisions matrix that is based on historical credit loss, adjusted for forward-looking factors that are specific to the debtors and the economic environment.

(c) Hedge accounting
At the time of the introduction of IFRS 9, all of the Group's existing hedging qualified for treatment as continuing hedging. The Group has derivatives that are defined for hedging purposes, but does not use the hedge accounting rules.

Since IFRS 9 is to be implemented prospectively, the Group's previous accounting policies according to IAS 39 apply to 2017 as the comparison year, and these policies are stated below.

The Group classifies financial instruments in the following categories: financial instruments at fair value via profit or loss, loans and receivables, financial assets available for sale and financial liabilities. The classification depends on the purpose of the asset or liability. Management classifies financial assets and liabilities on acquisition.

Financial instruments at fair value via profit or loss
Financial instruments are recognised in the statement of financial position when the Group has become party to the instrument's contractual provisions, and deducted when the contractual rights or obligations are fulfilled or cancelled, or have expired or been transferred. Financial instruments are classified as current assets if the expected settlement date is within 12 months of the close of the financial year, and as non-current assets if the settlement date is later than 12 months after the close of the financial year.

Financial instruments at fair value via profit or loss are either financial instruments held for trading purposes or financial instruments earmarked at fair value. A financial instrument is classified in the category "held for trading purposes" if it is primarily acquired with a view to producing profit from short-term price fluctuations. Derivatives are classified as held for trading purposes unless they form part of a hedge. Assets and liabilities in this category are classified as current assets or short-term debt if it is expected that they will be settled within 12 months; otherwise they are classified as financial assets or non-current debt.

Loans and receivables
Loans and receivables are financial assets that are not derivatives, that have fixed or determinable payments and that are not traded in an active market. They are classified as current assets unless they fall due more than 12 months after the close of the financial year. Loans and receivables comprise accounts receivable and other receivables, as well as cash and cash equivalents in the statement of financial position.

Loans and receivables are measured at amortised cost, and value changes resulting from interest-rate changes are not recognised.

Financial assets available for sale
Financial assets available for sale are financial assets that are not derivatives and that have been placed in this category, or that do not belong to any other category. They are classified as fixed assets provided that the investment does not fall due or the management does not intend to sell the investment within 12 months from the close of the financial year.

Other financial liabilities
Financial liabilities not falling into the category of "financial instruments at fair value via profit or loss" are classified as other financial liabilities. For measurement of financial liabilities at fair value, see measurement of financial instruments in Note 2.

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Financial liabilities are recognised at amortised cost based on an effective interest-rate method. Transaction costs (arrangement charges) are capitalised in the statement of financial position as part of the book value of the loan, and depreciated over the period of the loan.

Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year.

Categorisation of financial assets and debt
The Group's measurement of financial assets, debt and other financial instruments at fair value can be divided into three categories:
Level 1: Listed (unadjusted) prices in active markets.
Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.
Level 3: Techniques for calculation of fair value based on other than observable market data.

Leases
Leases where a significant part of the risk and return associated with ownership continues to lie with the lessor are classified as operational leases. Lease payments from operational leases (with deduction for any financial incentives from the lessor) are charged as expenses using the straight-line method over the period of the lease.

Leases with regard to property, plant and equipment in which the Group principally holds all risks and rewards are classified as financial leasing. Financial leasing is capitalised at the start of the lease period at the lower of fair value of the leased fixed assets and the present value of the total minimum lease amount. Each lease payment is allocated between a repayment element and an interest element. The lease cost is charged to profit or loss as financial expenses. The lease liability, less the cost of interest, is classified as other current liabilities and other non-current liabilities. Property, plant and equipment acquired through a financial lease agreement is depreciated over the expected life or the period of the lease if this is shorter.

As from the 2019 financial year, the accounting policies for lease agreements are amended after the introduction of new IFRS 16, which will have a significant impact on the Group's accounts. Further details are given in Note 16 to the consolidated financial statements.

Statement of cash flows
The indirect method is used in the preparation of the statement of cash flows. Cash and cash equivalents in the statement of financial position are defined as holdings of cash and cash equivalents in the statement of cash flows.

Segment information
Operating segments are reported in the same way as for internal reporting to Group management. The Group's business areas comprise Spirits, Wine and Distribution and decisions within each business area are taken by the Group CEO.

The Group's activities consist of sales and marketing of Spirits, sales and marketing of Wine, and Distribution of spirits and wine.

The Spirits business area comprises the following companies: Arcus Norway AS with subsidiaries, Det Danske Spiritus Kompagni A/S, Arcus Denmark A/S, Arcus Sweden AB, Arcus Finland Oy and Arcus Deutschland GmbH.

The Wine business area comprises the following companies: Vingruppen Sweden Holding AB and subsidiaries, and Vingruppen AS and subsidiaries.

The Distribution business area comprises Vectura AS.

In addition, there are the remaining Group income and expenses, as well as financing costs, that comprise Arcus-Gruppen AS and Arcus ASA.

The Group presents no segment assets or liabilities, as this is not done in the Group's internal reporting

For further information about the Group's operating segments, see Note 5.

Areas in which estimates have major significance will be:

Figures in NOK 1,000

Accounting item	Note	Assumptions	Book value 2018	Book value 2017
Goodwill	15	Present value of future cash flows	1,042,130	1,042,596
Brands	15	Present value of future cash flows	815,009	819,702
Other intangible assets	15	Recoverable amounts and correct useful life	26,752	29,151
Property, plant and equipment	14	Recoverable amounts and correct useful life	315,839	329,826
Deferred tax assets	12	Assessment of the ability to exploit tax assets in the future	110,158	136,790
Pension obligations	10	Economic and demographic assumptions	21,077	30,552
Liabilities at fair value through profit or loss	22	Present value of future cash flows	74,218	0
Provisions	23	Correct basis for estimate calculations	9,008	12,478

Related parties

The Group's related parties, in addition to subsidiaries, associated companies and jointly controlled companies, are defined as the owners, all members of the Board of Directors and Group Management, and companies in which any of these parties either have controlling interests, Board appointments, or are senior employees.

All transactions between Group companies and related parties are made on market terms.

Important accounting estimates and discretionary assessments

Preparation of the annual financial statements requires management to make estimates and assumptions that affect the value of assets, liabilities and conditional liabilities in the statement of financial position, and income and expenses for the financial year.

Future events and changes in the regulatory framework may mean that estimates and assumptions must be changed, while new opinions and interpretations of standards may mean that the choice of principles and presentation will be changed. Estimates and underlying assumptions are examined and evaluated continuously, and changes in accounting estimates are recognised in the period in which the estimates are changed.

Present value estimates of future cash flows are affected by correct assumptions and estimates of future cash flows and estimates of return requirements. Return requirements are determined using the capital asset pricing model (CAPM) and assumptions in using the CAPM are: risk-free interest; market risk premium; and beta.

The areas with greatest risk of substantial changes are capitalised goodwill, brands, tax assets and liabilities at fair value via profit or loss, on the basis that the capitalised amounts are substantial, and that considerable discretion may be exercised. The estimates are based on assumptions concerning future cash flows that are discounted at a selected discount rate.

Estimates and assumptions are described in the various notes.

Notes

NOTE 1 COMPANIES IN THE GROUP

The consolidated financial statements for 2018 cover the following subsidiaries and associated companies:

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Company name				
Arcus ASA (parent company)	Nittedal	NOK	1,360	
Subsidiaries				
Arcus-Gruppen AS	Nittedal	NOK	276,552	100%
Vectura AS	Nittedal	NOK	14,014	100%
Shares owned by Arcus-Gruppen AS				
Arcus Norway AS	Nittedal	NOK	62,100	100%
Arcus Denmark AS	Copenhagen	DKK	10,324	100%
Det Danske Spiritus Kompagni A/S	Copenhagen	DKK	6,500	100%
Vingruppen AS	Nittedal	NOK	60	100%
VinGruppen Sweden Holding AB	Stockholm	SEK	50	100%
Arcus Deutschland GmbH	Bremen	EUR	500	100%
Shares owned by Arcus Norway AS				
Arcus Sweden AB	Stockholm	SEK	100	100%
Arcus Finland OY	Helsinki	EUR	311	100%
BevCo AS	Nittedal	NOK	600	100%
Atlungstad Håndverksdestilleri AS	Stange	NOK	30	100%
Stockholms Spritfabrik AB	Stockholm	SEK	50	100%
De Lysholmske Brenneri- og Destillasjonsfabrikker ANS	Nittedal	NOK	0	100%
Oplandske Spritfabrik ANS	Nittedal	NOK	0	100%
Løiten Brænderis Destillation ANS	Nittedal	NOK	0	100%
Siemers & Cos Destillasjon ANS	Nittedal	NOK	0	100%
Shares owned by VinGruppen Sweden Holding AB				
Vingruppen i Norden AB	Stockholm	SEK	4,192	100%

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Shares owned by Vingruppen AS				
Arcus Wine Brands AS	Nittedal	NOK	100	100%
Vinordia AS	Nittedal	NOK	968	100%
Symposium Wines AS	Nittedal	NOK	500	90%
Vinuniq AS	Nittedal	NOK	100	100%
Excellars AS	Nittedal	NOK	181	100%
Heyday Wines AS	Nittedal	NOK	100	70%
Classic Wines AS	Nittedal	NOK	30	100%
Creative Wines AS	Nittedal	NOK	30	100%
Shares owned by Symposium Wines AS				
Hedoni Wines AS	Nittedal	NOK	30	90%
Shares owned by Arcus Wine Brands AS				
Arcus Brand Lab AS	Nittedal	NOK	30	100%
Shares owned by Vingruppen i Norden AB				
Vinunic AB	Stockholm	SEK	145	100%
Wineworld Sweden AB	Stockholm	SEK	500	90%
The WineAgency Sweden AB	Stockholm	SEK	100	90%
Valid Wines Sweden AB	Stockholm	SEK	1,100	83%
Social Wines OY	Helsinki	EUR	8	94%
Vinum Import Oy	Åbo	EUR	3	88%
Vingruppen Oy	Helsinki	EUR	3	100%
Shares owned by Wineworld Sweden AB				
Wineworld Finland Oy	Helsinki	EUR	220	76%
Quaffable Wines Sweden AB	Stockholm	SEK	100	72%
Shares owned by Vinunic AS				
Vingaraget AB	Stockholm	SEK	50	100%
Owned by The WineAgency Sweden AB and WineWorld Sweden AB				
Your Wineclub Sweden AB	Stockholm	SEK	50	90%

Figures in 1,000 (local currency)	Registered office	Currency	Nominal share capital	Group holding and voting share
Shares owned by Social Wines Oy				
Vinunic Oy	Helsinki	EUR	3	94%
Shares owned by Quaffable Wines Sweden AB				
New Frontier Wines AB	Stockholm	SEK	50	72%
Associated company				
Tiffon SA	Jarnac	EUR	1131	35%
Smakeappen AS	Oslo	NOK	100	50%

Profit, dividends and equity attributable to non-controlling interests

Figures in NOK 1,000	Profits attributable to non-controlling interests in 2018	Accumulated non-controlling interests 31 December 2018 (assuming that put options are not exercised)*	Accumulated non-controlling interests 31 December 2018 (assuming that put options are exercised)*	Dividend distributed to non-controlling interests in 2018
Symposium Wines AS	515	1,259	0	-920
Heyday Wines AS	548	1,004	0	-68
Wineworld Sweden AB	1,643	5,674	0	-3,177
The WineAgency Sweden AB	1,381	4,619	0	-1,367
Social Wines OY	337	1,428	0	-95
Vinum Import Oy	351	1,435	1,435	-170
Other companies with minority interests	1,179	2,822	1,530	0
Total	**5,954**	**18,241**	**2,965**	**-5,797**

Figures in NOK 1,000	Profits attributable to non-controlling interests in 2017	Accumulated non-controlling interests 31.12.2017	Dividend distributed to non-controlling interests in 2017
Symposium Wines AS	1,089	2,290	-1,337
Heyday Wines AS	213	459	0
Wineworld Sweden AB	3,161	7,583	-693
The WineAgency Sweden AB	1,454	4,777	-1,098
Social Wines OY	150	1,357	0
Vinum Import Oy	501	1,280	-335
Other companies with minority interests	376	1,077	-58
Total	**6,944**	**18,823**	**-3,521**

* Several of the subsidiaries managing directors have non-controlling interests, and most of the managing directors have put options regarding their shares which they may exercise at a given future time. The Group does not have control of the shares at the end of the period, nor does it have control of the possible exercising of the put options. The table above show accumulated non-controlling interest for both assuming that the put options are exercised and assuming the put options are not exercised.

Since the Group does not have control of this exercising, the Group's book equity is subject to the assumption that the options are exercised.

Key figures for companies with significant non-controlling interests in the Group

2018

Figures in NOK 1,000	Symposium Wines AS	Heyday Wines AS	Wineworld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenue	130,291	31,694	205,280	227,577	220,182	101,689
Other operating revenue	0	0	-2,950	-4,302	197	-756
Operating expenses excluding depreciation	-122,221	-29,053	-181,146	-205,504	-213,146	-91,013
Depreciation	0	0	-4	-21	-26	0
Operating profit	**8,070**	**2,641**	**21,180**	**17,750**	**7,207**	**9,919**
Net financial profit	609	-259	-38	74	-14	0
Tax	-2,030	-555	-4,719	-4,009	-1,434	-857
Profit for the year	**6,649**	**1,827**	**16,423**	**13,814**	**5,759**	**9,062**
Fixed assets	388	85	2,951	484	678	409
Current assets	45,356	11,875	108,004	94,367	59,662	33,854
Total assets	**45,744**	**11,960**	**110,955**	**94,851**	**60,340**	**34,263**
Equity	4,187	1,530	56,747	46,178	25,441	12,065
Liabilities	41,557	10,430	54,208	48,673	34,899	22,197
Equity and liabilities	**45,744**	**11,960**	**110,955**	**94,851**	**60,340**	**34,263**

2017

Figures in NOK 1,000	Symposium Wines AS	Heyday Wines AS	Wineworld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenue	103,301	17,799	231,364	196,074	124,805	53,147
Other operating revenues	0	0	-4,994	-3,130	190	-143
Operating expenses excluding depreciation	-96,413	-16,735	-185,768	-174,269	-120,314	-47,731
Depreciation	0	0	-9	-19	-1,483	0
Operating profit	**6,888**	**1,064**	**40,592**	**18,656**	**3,198**	**5,273**
Net financial profit	319	-118	0	91	-53	-12
Tax	-1,760	-237	-8,981	-4,203	-694	-1,054
Profit for the year	**5,447**	**709**	**31,611**	**14,544**	**2,451**	**4,207**
Fixed assets	158	7	2,950	475	1,079	440
Current assets	36,139	8,100	129,095	97,556	58,472	32,636
Total assets	**36,297**	**8,107**	**132,045**	**98,031**	**59,551**	**33,075**
Equity	3,722	1,530	75,838	47,763	20,701	10,206
Liabilities	32,575	6,577	56,207	50,269	38,850	22,870
Equity and liabilities	**36,297**	**8,107**	**132,045**	**98,031**	**59,551**	**33,075**

NOTE 2 MANAGEMENT OF FINANCIAL RISK

Financial risk

The Group has a Board-adopted financial policy in which strategy and guidelines for financial risk management are defined. Responsibility for the execution of the adopted financial policy lies with Arcus ASA, but is implemented in cooperation with the individual business areas. The Arcus Group's principal source of income is the core business, and the Group's main strategy with regard to risk is not to speculate, but to limit the financial risk that the core business creates.

The most important financial risks to which the Group is exposed are associated with credit risk, interest-rate risk, liquidity risk and foreign currency risk.

For hedging purposes associated with interest-rate and currency risk, the Group to a certain degree uses financial derivatives. The Group does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes. The accounting treatment of financial derivatives is described under Accounting policies.

Credit risk

The Group has a procedure for the management of credit risk, which indicates that credit risk must be assessed before establishing a customer relationship by examining financial statements and other relevant and available information, and by determining credit periods and credit limits. The credit procedure also defines that after the establishment of a customer relationship:

- Customers that are granted credit must be subject to systematic credit assessment, with the establishment of credit limits that are followed up regularly.
- Credit terms in conjunction with sale to customers must be kept to a minimum and may normally not exceed 30 days.
- Credit risk must be reviewed and assessed at least quarterly.

If it is discovered that a credit assessment has not been made for a merchant customer, or is older than six (6) months, a credit check must be performed immediately.

Outstanding amounts are continuously monitored in cooperation between the finance department and the marketing departments of the individual activities. If an outstanding amount is not paid, a reminder must be sent. Reminders/collection notices must be run once a week, and other activities must be assessed on an ongoing basis.

On a monthly basis, and on the basis of the Group's template rules, the credit department calculates the loss provisions required. The Group's matrix for loss provisions is presented below.

Due date distribution of trade receivables	Assessment of provision requirements
Receivables with reminder level 1 (notice of collection sent)	10.0%
Receivables with reminder level 2 (ready for collection)	15.5%
Receivables with reminder levels 5, 8 and 9 (collection sent)	20.0%
Specific provisions on accounts receivable	Individual assessment

A significant share of the Group's revenue is associated with the state monopolies in the Nordic region, where there is not considered to be any credit risk. The Group's credit risk is otherwise spread over a large number of small customers within the HORECA market, as well as a small number of distributors outside the home markets.

At the end of 2018 the Group had no significant factoring agreements.

The Group's maximum credit risk is equivalent to the book value of financial assets. See also the table to this Note which categorises financial assets.

Overview of bad debts and age analysis of accounts receivable

Figures in NOK 1,000	31.12.18	31.12.17
Nominal accounts receivable	1,261,888	1,432,873

The provision for bad debt on accounts receivable as at 31 December 2018 was TNOK 1,179 (2017: TNOK 709). Losses on accounts receivable are classified as other operating expenses in the statement of income.

As at 31 December, the Group had the following accounts receivable fallen due but not paid

31.12.2018[1)] *Figures in NOK 1,000*	Total	Not due	Due in 0-60 days	Due in 61-365 days	Due date after more than 1 year
Nominal accounts receivable	1,261,888	1,208,581	51,529	1,778	0
Provision for losses on accounts receivable	-1,179	0	-683	-496	0
Book value, accounts receivable	**1,260,709**	**1,208,581**	**50,846**	**1,282**	**0**

31.12.2017[1)]

Figures in NOK 1,000	Total	Not due	Due in 0-60 days	Due in 61-365 days	Due date after more than 1 year
Nominal accounts receivable	1,432,873	1,274,624	158,242	7	0
Provision for losses on accounts receivable	-709	0	-702	-7	0
Book value, accounts receivable	**1,432,164**	**1,274,624**	**157,540**	**0**	**0**

1. Receivables as at 31 December 2018 include significantly fewer accounts receivable that have fallen due for the Group than at the end of 2017. At the end of 2018, approximately NOK 1 million was related to accounts receivable that had fallen due from Vinmonopolet in relation to receivables which fell due during the New Year period in December 2018, and these were paid on the first banking day in 2019, i.e. 2 January 2019. In the same way, NOK 127 million was items receivable from Vinmonopolet at the end of 2017.

Interest-rate risk

The Group is exposed to interest-rate risk through financing activities (debt financing and financial leasing liabilities) and investments (bank deposits). At the end of 2018, the Group's non-current liabilities were associated with credit facilities at SEB and financial leasing at at Nordea Finans and Volvo Finans. Group policy is to hedge up to 50 per cent of the base interest rate on non-current loans. The Group assesses the policy on an ongoing basis, and as at 31 December 2018 all interest rates were variable. The margin on credit facilities at SEB is related to the ratio of net interest-bearing debt in relation to EBITDA, while the margin at Nordea Finans and Volvo Finans is fixed.

Figures in NOK 1,000	Currency	Interest-rate profile	Due date	2018	2017
Current interest-bearing debt					
Drawing on the Group's overdraft facility	NOK	Variable	2019	0	72,700
Current liabilities related to financial leasing	NOK	Variable	2019	18,063	17,371
Non-current interest-bearing debt					
Non-current loan to financial institutions	SEK	Variable	2021	728,325	749,400
Non-current liabilities related to financial leasing	NOK	Variable	2020	151,394	166,395

Sensitivity analysis, interest 2018

Figures in NOK 1,000	Increase/reduction in base points	Effect on pre-tax profit
Loans in NOK	50	-4,489
Loans in NOK	-50	4,489

Liquidity risk

Liquidity risk is the risk that the Group will not be in a position to service its financial liabilities as they fall due. The Arcus Group's capital management is described in a separate section of this note.

The Group's activities are subject to seasonal fluctuations, and alcohol sales normally increase in periods with national celebrations and public holidays, especially at Easter and Christmas. The fourth quarter is normally the best quarter for the Group, which is also reflected in cash flows.

Cash flows from operations, which are, for example, affected by changes in working capital, are managed operationally by the business areas. Via reporting, the finance department monitors liquidity flows in the short and long term. Interest-bearing debt is followed up and managed together with interest-bearing receivables at Group level.

The following table presents an overview of the maturity structure for the Group's financial liabilities, based on non-discounted contractual payments. In instances where the counterparty can demand earlier redemption, the amount is recorded in the earliest period in which the payment can be demanded by the counterparty

2018	Remaining period 0-1 year	1-5 years	More than 5 years
Debt to financial institutions – mortgage loans	0	728,325	0
Debt to financial institutions – leasing*	18,063	150,101	1,293
Liabilities at fair value	0	0	0
Other provisions	0	92	0
Trade payables	576,783	0	0
Current liabilities**	1,115,710	0	0
Interest related to mortgage loans	10,925	21,850	0
Interest related to financial leasing debt	4,194	3,301	66
Total	**1,725,675**	**903,669**	**1,359**

2017	Remaining period 0-1 year	1-5 years	More than 5 years
Debt to financial institutions – mortgage loans	0	749,400	0
Debt to financial institutions – leasing*	17,371	166,395	0
Other provisions	0	320	0
Trade payables	603,884	0	0
Current liabilities**	1,125,747	0	0
Interest related to mortgage loans	11,241	33,723	0
Interest related to financial leasing debt	4,316	6,809	0
Total	**1,762,559**	**956,647**	**0**

* Read more about the maturity profile of financial leases in Note 16 concerning Leasing agreements.
** Current liabilities include collected alcohol taxes.

Currency risk

The Group is exposed to currency risk as it has operations in several different countries. The Group's currency exposure can mainly be divided into two groups: cash flow risk and translation risk. The principal objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in NOK. Changes in purchase costs from suppliers in functional currency due to exchange rate changes are continuously offset by changes of sales prices to customers and through renegotiation of purchase prices from suppliers. The most significant currencies are EUR, USD, SEK and DKK. The risk horizon, i.e., the time it takes to compensate for negative exchange rate fluctuations, is to a great extent controlled by price-adjustment opportunities in the state monopolies in the Nordic region. In Norway this takes place every four months and in Sweden every six months. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions.

All of the Group's long-term borrowing is undertaken in SEK, as a natural hedging of cash flow in the form of dividends in SEK.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate in the companies' functional currencies.

The Group's presentation currency is NOK. The Group is therefore further exposed to currency risk when translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged. As at 31 December 2018, the net translation difference associated with the majority's equity was positive at NOK 308.5 million, corresponding to a positive change in 2018 of NOK 7.7 million (positive by NOK 300.8 million at the end of 2017).

The table below shows the Group's purchase of non-functional foreign exchange during 2018.

	Purchase of currency 2018			
Figures in 1,000 (in the relevant currency)	Spot	Forward	Total	Proportion hedged via forward contracts
EUR	90,399	11,200	101,599	11.0%
USD	11,735	150	11,885	1.3%
AUD	1,088	60	1,148	5.2%
GBP	1,365	320	1,685	19.0%
SEK	0	190	190	100.0%

	Purchase of currency 2017			
Figures in 1,000 (in the relevant currency)	Spot	Forward	Total	Proportion hedged via forward contracts
EUR	85,554	15,885	101,439	15.7%
USD	10,092	390	10,482	3.7%
AUD	1,048	230	1,278	18.0%
GBP	2,215	80	2,295	3.5%
DKK	70,000	0	70,000	0.0%
SEK	40	0	40	0.0%

At the end of the year, the Group had the following forward contracts related to the distribution activities, which were booked at fair value with value changes through profit or loss. The represents financial hedging and the Group does not use hedge accounting.

31.12.18

Forward contracts *Figures in NOK 1,000*	Currency	Currency amount	Value in NOK - end of period	Forward value in NOK	Fair value in NOK	Due date
Purchase contracts	EUR	1,600	15,912	15,308	604	2019
Purchase contracts	GBP	50	553	534	20	2019
Total					**624**	

31.12.17

Forward contracts *Figures in NOK 1,000*	Currency	Currency amount	Value in NOK - end of period	Forward value in NOK	Fair value in NOK	Due date
Purchase contracts	EUR	2,000	19,702	18,783	919	2018
Purchase contracts	USD	110	907	856	51	2018
Purchase contracts	AUD	60	385	373	12	2018
Purchase contracts	GBP	20	222	211	11	2018
Total					**993**	

All forward contracts are recognised at fair value as of the close of the financial year.

Sensitivity to exchange rate fluctuation:

The following table shows the Group's sensitivity to changes in the most important exchange rates, if all other variables remain constant.

The effect on the Group's profit before tax is calculated as changes in the fair value of monetary assets and liabilities as at 31 December 2018 in foreign currency (non-functional currency). This includes hedging derivatives recognised at fair value with value changes through profit or loss.

The effect on other comprehensive income (OCI) is calculated as the effect of the translation differences associated with subsidiaries in foreign currency as at 31/12/2018.

Figures in NOK 1,000	Change in exchange rate	Effect on pre-tax profit	Total effect on OCI before tax
EUR	5%	-1,419	3,554
EUR	-5%	1,419	-3,554
SEK	5%	-2,326	1,562
SEK	-5%	2,326	-1,562
DKK	5%	6,016	41,012
DKK	-5%	-6,016	-41,012

The Group's exposure to other currencies is insignificant as at 31/12/2018.

Categorisation of financial assets and liabilities:

Assets

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial instruments at amortised cost	Financial instruments at fair value through total comprehensive income (OCI).	Total book value of financial assets, 31.12	Prepaid costs	Total in the statement of financial position 31.12.
Other investments in shares	0	200	0	200	0	200
Other non-current receivables	0	1,581	0	1,581	0	1,581
Trade receivables	0	1,260,709	0	1,260,709	0	1,260,709
Other receivables	624	59,966	0	60,590	20,231	80,821
Bank deposits	0	282,594	0	282,594	0	282,594
Total financial assets 31.12.2018	**624**	**1,605,050**	**0**	**1,605,674**	**20,231**	**1,625,905**

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Loans and receivables	Assets available for sale	Total book value of financial assets, 31.12.	Prepaid costs	Total in the statement of financial position 31.12.
Other investments in shares	0	0	200	200	0	200
Other non-current receivables	0	1,205	0	1,205	0	1,205
Trade receivables	0	1,432,164	0	1,432,164	0	1,432,164
Other receivables	993	70,981	0	71,974	14,921	86,895
Bank deposits	0	184,415	0	184,415	0	184,415
Total financial assets 31.12.2017	**993**	**1,688,765**	**200**	**1,689,958**	**14,921**	**1,704,879**

Liabilities

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial instruments at amortised cost	Financial instruments at fair value through total comprehensive income (OCI).	Total book value of financial liabilities, 31.12	Provision for accrued costs and statutory obligations	Total in the statement of financial position 31.12.
Debt to financial institutions	0	892,958	0	892,958	0	892,958
Liabilities at fair value	74,218	0	0	74,218	0	74,218
Other non-current liabilities	0	647	0	647	0	647
Trade payables	0	576,783	0	576,783	0	576,783
Other current liabilities	0	15,960	0	15,960	169,296	185,256
Total financial liabilities 31.12.2018	**74,218**	**1,486,348**	**0**	**1,560,566**	**169,296**	**1,729,862**

Figures in NOK 1,000	Financial instruments at fair value with value changes through profit or loss	Financial liabilities	Total book value of financial liabilities, 31.12	Provision for accrued costs and statutory obligations	Total in the statement of financial position 31.12.
Debt to financial institutions	0	999,289	999,289	0	999,289
Liabilities at fair value	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Trade payables	0	603,884	603,884	0	603,884
Other current liabilities	0	14,916	14,916	182,828	197,744
Total financial liabilities 31.12.2017	**0**	**1,618,089**	**1,618,089**	**182,828**	**1,800,917**

Fair value hierarchy
The Group uses the following hierarchy to determine and report the fair value of financial instruments:
Level 1: Listed (unadjusted) prices in active markets
Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.
Level 3: Techniques for calculation of fair value based on other than observable market data.

As at 31 December 2018, the Arcus Group had the following financial liabilities at fair value in the statement of financial position:

31.12.18	Level 1	Level 2	Level 3	Book value as at 31.12.
Currency derivatives	0	624	0	624
Total assets	**0**	**624**	**0**	**624**

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value through profit or loss	0	0	74,218	74,218
Total liabilities	**0**	**0**	**74,218**	**74,218**

31/12/2017	Level 1	Level 2	Level 3	Book value as at 31.12.
Currency derivatives	0	993	0	993
Total assets	**0**	**993**	**0**	**993**

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value through profit or loss	0	0	0	0
Total liabilities	**0**	**0**	**0**	**0**

There have been no reclassifications between Level 1 and Level 2 during the period. Neither have there been any transfers out of Level 3 during the period.

Reconciliation of liabilities (Level 3):
Commitments classified at Level 3 are related to options for the purchase of non-controlling interests. Further information on these commitments is presented in Note 22.

	Book value 31.12.2017	Used/exercised 2018	Provision made/ issued 2018	Value changes 2018	Recognised interest 2018	Translation differences	Book value 31.12.18
Liabilities at fair value	0	0	67,874	2,560	104	3,680	74,218
Total	**0**	**0**	**67,874**	**2,560**	**104**	**3,680**	**74,218**

	Book value 31.12.2016	Used/exercised 2017	Provision made/ issued 2017	Value changes 2017	Recognised interest 2017	Translation differences	Book value 31.12.2017
Liabilities at fair value	24,135	-10,483	0	-13,673	21	0	0
Total	**24,135**	**-10,483**	**0**	**-13,673**	**21**	**0**	**0**

Capital management
The Group's overall objective is that the Group at all times has sufficient liquidity to fulfil its obligations in both the short and long term. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance. Unutilised credit opportunities are described in Note 19.

As far as possible, the Group wishes to have flexibility for its liquid assets in relation to day-to-day operations. The Group achieves this through a Group cash pool system with a drawing facility that as of 31 December 2018 is managed by Arcus ASA.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. The Group works according to the objective that the net interest-bearing debt may not exceed 2.5 times EBITDA.

There were no changes in the Group's non-current debt financing during 2018. At the end of 2018, the agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this loan clause and reports to the bank on a quarterly basis. As at 31 December 2018 the Group was well within the required ratio. In connection with the introduction of IFRS 16 concerning leases as from 2019, the Group's reported net interest-bearing debt and adjusted EBITDA will change significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to the current model, regardless of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms will not be affected by the introduction of IFRS 16.

The Group also has financial leasing agreements for major investments in production equipment.

NOK million	2018	2017
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	874,895	909,218
Current interest-bearing debt to credit institutions	18,063	90,071
Capitalised front-end fees	4,824	6,577
Bank deposits and other cash and cash equivalents	-282,594	-184,415
Net interest-bearing debt	**615,188**	**821,451**

NOTE 3 INFORMATION ON CASH FLOWS

The Group prepares the statement of cash flows according to an indirect method. Below is a specification of cash flow effects which are not presented elsewhere in the Notes.

CASH FLOWS FROM OPERATIONS:

Pension costs and other provisions without cash effect

Pension costs without cash effect are the change in pension obligations in the statement of financial position, adjusted for obligations from acquisition or sale, and the effects of booked estimate deviations booked to total comprehensive income (OCI).

Figures in NOK 1,000	Note	2018	2017
Book value pension obligations at the beginning of the year	10	-30,552	-34,092
Estimate deviations booked to the total comprehensive income	10	9,900	4,438
Book value pension obligations at the end of the year	10	21,077	30,552
Pension costs without cash effect		**425**	**898**
Book value other provisions for obligations at the beginning of the year	23	-320	-627
Book value other provisions for obligations at the end of the year	23	92	320
Costs from other provisions without cash effect		**-228**	**-307**
Total pension costs and other provisions without cash effect		**197**	**591**

Value changes without cash effect

Below is a specification of value changes included in the statement of income, but without cash effect.

Figures in NOK 1,000	Note	2018	2017
Value change in options for the purchase of non-controlling interests	11,22	2,560	147
Value change in previous co-investment programme for senior executives	11,22	0	-13,821
Costs related to share-based remuneration without cash effect	9	7,603	9,415
Amortization of front-end fees for interest-bearing debt	21	1,623	1,652
Value change, forward contracts	11	369	-1,837
Total value changes without cash effect		**12,155**	**-4,444**

Profit or loss on sale of fixed assets and intangible fixed assets

The accounting profit or loss on the sale of fixed assets and intangible fixed assets has no cash flow effect, which is thereby reversed from the operational activities in the indirect method. The sales proceeds related to these divestments is the Group's cash flow effect under investment activities.

Figures in NOK 1,000	Note	2018	2017
Book value of sold fixed assets and intangible fixed assets	14,15	0	0
Sales proceeds from sold fixed assets and intangible fixed assets		365	30
Profit (-) / loss (+) on sale of fixed assets and intangible fixed assets		**-365**	**-30**

Unrealised gains

Unrealised gains are related to translation differences for working capital items in foreign subsidiaries with a functional currency other than the Group's functional currency, and statement of income items related to the currency translation of loans booked in other currencies than the functional currency.

Figures in NOK 1,000	Note	2018	2017
Translation differences for working capital items		1,195	19,195
The effects on the result of the translation of loans booked in another currency than the functional currency		0	0
Total unrealised gain		**1,195**	**19,195**

Changes in working capital

Changes in working capital are the change in working capital items in the statement of financial position, adjusted for working capital items from the acquisition or sale of companies during the period.

Figures in NOK 1,000	Note	2018	2017
Book value of inventories at the beginning of the year		410,759	378,777
Addition of inventories on acquisition of companies during the year		0	201
Book value of inventories at the end of the year		-441,117	-410,759
Change in inventories		**-30,358**	**-31,781**

Figures in NOK 1,000	Note	2018	2017
Book value of trade receivables at the beginning of the year		1,432,164	1,344,067
Addition of trade receivables on acquisition of companies during the year		0	44,158
Book value of trade receivables at the end of the year		-1,260,709	-1,432,164
Change in trade receivables		**171,455**	**-43,939**

Figures in NOK 1,000	Note	2018	2017
Book value of trade payables at the beginning of the year		-603,884	-628,347
Addition of trade payables on acquisition of companies during the year		0	-20,974
Book value of trade payables at the end of the year		576,783	603,884
Change in trade payables		**-27,101**	**-45,437**

Figures in NOK 1,000	Note	2018	2017
Book value of other current receivables at the beginning of the year	17	85,902	78,996
Addition of other current receivables on acquisition of companies during the year		0	845
Book value of other current receivables at the end of the year	17	-74,958	-85,902
Change in other current receivables		**10,944**	**-6,061**
Book value of other current liabilities at the beginning of the year	24	-1,124,105	-1,108,674
Addition of other current liabilities on acquisition of companies during the year		0	-31,626
Book value of other current liabilities at the end of the year	24	1,113,785	1,124,105
Change in other current liabilities		**-10,320**	**-16,195**
Change in other current assets and other liabilities		**624**	**-22,256**

CASH FLOWS FROM INVESTMENT ACTIVITIES:

Payments on acquisition of other financial investments

In 2018, the entire amount concerns a payment related to an ownership interest in a new associated company, Smakeappen AS. In 2017, the payment was related to an increased ownership interest in an existing associated company, Tiffon SA.

Figures in NOK 1,000	Note	2018	2017
Increased ownership interest in an associated company (Tiffon SA)	13	0	-454
Ownership interest in Smakeappen AS	13	-119	0
Payments on acquisition of other financial investments		**-119**	**-454**

CASH FLOWS FROM FINANCING ACTIVITIES:

Interest cost paid during the period

The Group has quarterly interest payment dates, so that the Group's recognised interest payable coincides with the interest paid during the year. The difference between recognised interest payable and interest paid is related to calculated interest costs relating to liabilities at fair value through profit and loss, recognized in the statement of financial position.

Figures in NOK 1,000	Note	2018	2017
Interest paid to credit institutions	11	-37,302	-31,454
Interest cost paid during the period		**-37,302**	**-31,454**

Payment of dividend

Dividend paid in 2018 is mainly related to dividend to shareholders in Arcus ASA (TNOK 112,919). Other dividend is to minority shareholders in individual subsidiaries within the wine business. This dividend is specified in Note 1.

NOTE 4 REVENUE

Sales revenue is the primary income source for the Group and related segments.

Spirits
The primary revenue source in Spirits is the sale of spirits products, of which most of the sales revenue is from own produced products, for which the Group is also the owner of the brand. In addition, this segment also has sales revenue from a good number of agencies, of which the products may be processed and bottled by the Group or imported products that are ready for sale, but where the brand is owned by other external operators. The most important spirits categories are Aquavit, Bitters, Vodka and Cognac.

In geographical terms, Norway, Denmark and Sweden are the most important markets, but the Group also has sales to Germany, the USA, Finland and DFTR (Duty Free Travel Retail), as well as other sales to other markets.

Wine
The primary revenue source for Wine is sales of wine products, where most of the sales revenue is from agency activities, where the Group imports products that are ready for sale. The Group also has considerable sales revenue from sales of own Wine brands, with wine being blended and bottled in the Group's own production facility.

In geographical terms, the Group has sales revenue from Wine in Norway, Sweden and Finland, and to small extent from DFTR.

Distribution
The Group's distribution activities comprise its subsidiary,Vectura, whose primary revenue source is comprehensive logistics services for both internal and external suppliers in Norway.

Other operating revenues
Other operating revenues primarily comprise revenues other than the primary source of income. For the Spirits segment this consists mainly of contract bottling, and for the Wine segment glass sales, while for the Distribution segment this consists mainly of other activity-based income, including pallet location hire, export handling, destruction handling and quarter pallet production.

The following table presents the Group's total external revenue:

	2018			2017		
Sales revenue by market - Group:	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	1,048,786	27,615	1,076,401	996,050	24,568	1,020,618
Sweden	1,089,855	15,582	1,105,437	1,006,576	12,944	1,019,520
Finland	221,790	3,674	225,464	221,385	4,610	225,995
Denmark	145,077	-116	144,961	146,109	0	146,109
Germany	54,238	1,484	55,722	59,940	1,504	61,444
USA	6,729	31	6,760	3,238	580	3,818
DFTR	104,287	0	104,287	94,870	0	94,870
Other international	1,853	2,316	4,169	1,958	728	2,686
Total operating revenue	**2,672,615**	**50,586**	**2,723,201**	**2,530,126**	**44,934**	**2,575,060**

The tables below present the segments' total external and internal revenue:

	2018			2017		
Sales revenue by market - Spirits:	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	302,073	149,186	451,259	301,579	141,306	442,885
Sweden	125,130	4,589	129,719	126,469	5,455	131,924
Finland	34,313	0	34,313	32,711	289	33,000
Denmark	143,220	-116	143,104	146,109	0	146,109
Germany	54,238	1,484	55,722	59,940	1,504	61,444
USA	6,729	31	6,760	3,238	580	3,818
DFTR	94,552	0	94,552	91,417	0	91,417
Other international	2,192	1,977	4,169	1,958	728	2,686
Total operating revenue	**762,447**	**157,151**	**919,598**	**763,421**	**149,862**	**913,283**

	2018			2017		
Sales revenue by market - Wine	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	479,936	0	479,936	448,477	360	448,837
Sweden	932,148	16,018	948,166	882,085	13,509	895,594
Finland	183,235	3,674	186,909	188,674	4,321	192,995
DFTR	9,396	339	9,735	3,453	0	3,453
Total operating revenue	**1,604,715**	**20,031**	**1,624,746**	**1,522,689**	**18,190**	**1,540,879**

	2018			2017		
Revenue by market - Distribution:	**Sales revenue**	**Other operating revenue**	**Total**	**Sales revenue**	**Other operating revenue**	**Total**
Norway	272,378	35,361	307,739	251,332	33,071	284,403
Total operating revenue	**272,378**	**35,361**	**307,739**	**251,332**	**33,071**	**284,403**

Significant customer relationships
The Group has significant customer relationships with Vinmonopolet in Norway and Systembolaget in Sweden, which each represent more than 10 per cent of the Group's total operating revenues.

Total operating revenue from Vinmonopolet was approximately NOK 711 million in 2018, of which NOK 281 million in Spirits and NOK 430 million in Wine. In 2017 the corresponding total was approximately NOK 689 million, of which NOK 286 million in Spirits and NOK 403 million in Wine.

Total operating revenue from Systembolaget was approximately NOK 932 million in 2018, of which NOK 115 million in Spirits and NOK 817 million in Wine. In 2017 the corresponding total was approximately NOK 905 million, of which NOK 116 million in Spirits and NOK 789 million in Wine.

IMPLEMENTATION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS
As from 2018, the Group has implemented IFRS 15 Revenue from contracts with customers. IFRS 15 is implemented based on the modified retrospective method, without adjustment of the comparative figures. Reconciliation of previous effects is presented in a separate table under this note. The implementation of IFRS 15 has not led to any significant changes in the Groups principles for revenue recognition. New revenue recognition principles and an overview of the most significant assessments made at implementation of IFRS 15 is described below.

Revenue recognition principles
Sale of goods (wine and spirits)
The Group's sales revenues mainly consist of revenues to the Scandinavian retail monopolies for sale of alcohol, which are the wine and spirits business's largest customers. The Group also has sales to Horeca customers (Hotel, Restaurant, Catering), wholesalers and sales to DFTR customers (Duty Free Travel Retail).

The wine and spirits business in the Group only sells physical goods in the form of wine and spirits products. The Group's sale of goods is recognized as revenue a given point in time when fulfillment of related delivery obligations has taken place. The timing corresponds to when the goods are delivered at the customer's agreed upon delivery point where the risk and control of the goods are transferred to the customer. Revenues are presented as sales revenues within the Wine and Spirits segment.

Implementation of IFRS 15 has not led to changes in accounting for revenue from sale of goods.

Sale of distribution services
Sale of distribution services consists of logistics and distribution services to agents and importers (partners) in Norway who supply alcoholic beverages to the Norwegian market. The distribution services consist of several service elements;
- Incoming goods flow (ordering, customs clearance and control on receipt of goods).
- Collaboration with Vinmonopolet, Horeca and wholesalers on distribution solutions and negotiations with customers.
- Arranging market activities for partners, in consultation with these.
- Outgoing goods flow (Customer handling, order receipt, license control, processing of excise duties, filing orders from customers, goods picking and assembling, physical distribution or preparation for pickup).
- Invoicing to customers, credit assessments and follow-up, system for discounts and bonuses from / to the partners to customers.
- Invoicing and reporting of excise duties
- Stock accounts

The revenues from distribution services are recognized at a given point in time when the fulfillment of the related delivery obligations has taken place, which corresponds to the time of fulfillment of the delivery obligations related to the sale of products in the wine and spirits business. Revenues from distribution services are presented as sales revenue within the Distribution segment.

Implementation of IFRS 15 has not led to changes in accounting for revenue from sale of distribution services.

Sale of other activity-based revenue
The Distribution business area also provides other activity-based services that consist of;
- Inbound transport from producer to country
- Storage for unsold goods
- Pallet building (conversion from large EUR pallets to smaller pallets)
- Destruction services

The revenues are presented as other operating revenues and are recognized over time in line with the fulfillment of the delivery obligations that correspond to when the services are delivered to the customer.

Implementation of IFRS 15 has not led to changes in accounting for revenue from sale of other activity-based revenues.

Sale of contract bottling services
The Spirits business area supplies bottling services to internal and external wine companies.

Revenues related to external wine companies are presented as other operating revenues and are recognized at a given point in time when the delivery obligations are met. The timing corresponds to when the risk and control of lost products is transferred to the customer.

Implementation of IFRS 15 has not led to changes in accounting for revenues from sale of bottling services.

Discounts

Most of the customer agreements, apart from the agreements with the monopolies, also includes clauses of retrospective variable transfers back to the customers after the actual delivery date. This can be volume-based discounts and bonuses that the customer receives based on the customer's sale to the end customer over a given period, or other contractual variable bonuses to a member-based Group of customers based on either sold volume or sales amount for the member companies. Such retrospective variable transfers are estimated and recognized in the income statement when the delivery obligation is fulfilled, and presented as a reduction of the sales revenues.

Implementation of IFRS 15 has not led to changes in accounting for discounts.

SIGNIFICANT CHANGES IN REVENUE RECOGNITION PRINCIPLES AS A CONSEQUENCE OF THE INTRODUCTION OF IFRS 15

Costs for outgoing freight

The group has previously recognized costs relating to outgoing freight (shipping costs for the delivery of goods sold to customers) as reduced sales revenues. IFRS 15 stipulates that outgoing freight costs must either be accounted for as a reduction of sales revenues or as an operating cost based on a principal versus agent assessment, depending on if sales companies are principals or agents for the outgoing freight. The group's assessment is that the wine and spirits businesses are principals, since most of their contracts with customers require delivery to the customers' warehouse. This corresponds to the group's assessment that the distribution business is agent in this respect, and thereby recognize its distribution revenue on a net basis.

On the basis of these assessments, the Group has changed its accounting principle for outgoing freight costs as of 2018, so that freight costs are recognized as a cost of goods. The change does not affect the calculation of gross profit, as revenues increase correspondingly as the increase in cost of goods. The change is not implemented in the segment reporting to ensure consistency between segment note and internal reporting to the Group's decision makers.

Distribution services and presentation

The Group has made significant assessments related to the timing of the distribution services. The assessments have included analysis of whether the underlying service elements are met over time or whether these are fulfilled at a given point in time. The group's assessment is that the service elements do not meet the criteria for revenue recognition over time, and consequently must be recognized as revenues at a given point in time that corresponds to the time when the risk and control of the goods delivered is transferred to the customer. The distribution business's date of revenue recognition consequently coincides with the revenue date of recognition for sale of goods.

Principal vs. Agent (Gross vs. Net Revenue Accounting)

The Distribution business area recognizes its revenues on a net basis after deduction of special taxes, cost of goods and inventory handling costs. The assessment is based on an overall assessment that Vectura's source of income relates to the delivery of total logistics services and that the risk of the flow of goods is the partner's (supplier's) responsibility.

Figures in NOK 1000	Reported 2018	IFRS 15 effects 2018	2018 without IFRS 15 effects	2017
Sales revenue	2,672,615	-41,499	2,631,116	2,530,126
Other operating revenue	50,586	0	50,586	44,934
Total operating revenue	**2,723,201**	**-41,499**	**2,681,702**	**2,575,060**
Cost of sales	-1,577,306	41,499	-1,535,807	-1,408,524
Gross profit	**1,145,895**	**0**	**1,145,895**	**1,166,536**

NOTE 5 SEGMENT INFORMATION

2018 *Figures in NOK 1,000*	Spirits	Wine	Distribution	Other	Eliminations/ reclassifications	Group
Sales revenues – external	766,774	1,603,260	261,082	0	41,499	2,672,615
Sales revenue between the segments	-4,327	1,455	11,296	0	-8,424	0
Other operating revenue – external	8,294	17,185	23,576	1,531	0	50,586
Other operating revenue between the segments	148,857	2,846	11,785	173,533	-337,021	0
Total operating revenue	**919,598**	**1,624,746**	**307,739**	**175,064**	**-303,946**	**2,723,201**
Net profit on sale of fixed assets	185	0	180	0	0	365
Cost of sales	-447,962	-1,244,346	0	0	115,002	-1,577,306
Salaries and other personnel costs	-123,803	-96,882	-146,321	-59,638	0	-426,644
Other operating expenses	-205,756	-102,011	-148,861	-141,646	188,944	-409,330
Share of profit from TS and FKV	2,311	0	0	0	0	2,311
EBITDA, adjusted	**144,573**	**181,507**	**12,737**	**-26,220**	**0**	**312,597**
Other income and expenses	-1,768	-11,838	-381	8,691	0	-5,296
Depreciation and amortization	-24,744	-2,586	-11,261	-6,235	-5,179	-50,005
Operating profit	**118,061**	**167,083**	**1,095**	**-23,764**	**-5,179**	**257,296**
Net financial profit/loss	**-7,938**	**-18,595**	**-221**	**-8,993**	**-369**	**-36,116**
PROFIT BEFORE TAX	**110,123**	**148,488**	**874**	**-32,757**	**-5,548**	**221,180**

2017 *Figures in NOK 1,000*	Spirits	Wine	Distribution	Other	Eliminations/ reclassifications	Group
Sales revenue – external	767,591	1,521,529	241,006	0	0	2,530,126
Sales revenue between the segments	-4,170	1,160	10,326	0	-7,316	0
Other operating revenue – external	6,669	15,072	22,741	452	0	44,934
Other operating revenue between the segments	143,193	3,118	10,330	173,730	-330,371	0
Total operating revenue	**913,283**	**1,540,879**	**284,403**	**174,182**	**-337,687**	**2,575,060**
Net profit on sale of fixed assets	30	0	0	0	0	30
Cost of sales	-404,928	-1,154,411	0	0	150,814	-1,408,524
Salaries and other personnel costs	-122,269	-100,122	-134,419	-60,602	0	-417,412
Other operating expenses	-206,650	-94,678	-135,852	-141,392	186,873	-391,699
Share of profit from TS and FKV	3,286	0	0	0	0	3,286
EBITDA, adjusted	**182,753**	**191,668**	**14,132**	**-27,812**	**0**	**360,741**
Other income and expenses	-7,142	-5,166	-647	-212	0	-13,167
Depreciation and amortization	-24,117	-1,794	-12,825	-7,666	-5,180	-51,581
Impairment	0	0	0	0	-22,700	-22,700
Operating profit	**151,494**	**184,709**	**660**	**-35,690**	**-27,880**	**273,293**
Net financial profit/loss	**2,988**	**-18,103**	**480**	**-1,577**	**1,669**	**-14,543**
PROFIT BEFORE TAX	**154,482**	**166,606**	**1,140**	**-37,267**	**-26,211**	**258,750**

The Group does not present the segments' assets or liabilities as this is not part of the Group's internal reporting either.

For information regarding pricing associated with sales between the segments, see Note 6.

NOTE 6 TRANSACTIONS WITH RELATED PARTIES

In addition to subsidiaries and associated companies, the Group's related parties are defined as the owners, all members of the Board of Directors and Group executive management, as well as companies in which any of these parties have either controlling interests, Board appointments or managerial positions.

The Group's transactions with related parties:

Purchase of goods and services:

Figures in NOK 1,000	Relationship	Delivery	2018	2017
Hoff SA	Owner	Raw materials	21,156	22,386
Tiffon SA	Associated company (34.75%)	Raw materials and consumables	45,456	52,746
Gjelleråsen Eiendom AS1)	Owned by shareholder (Canica AS)	Rent	0	79,150
Destilleriveien 11 AS1)	Owned by shareholder (Canica AS)	Rent	27,570	0
Thomas Patay	Former General manager of Vingruppen AS	Minority shareholder in Vinordia AS, Symposium Wines AS and Vinuniq AS	0	2,741
Draaav Konsult AB	Owned by a Board member of Vingruppen i Norden AB (Claes Lindquist)	Consulting services	767	0
Total purchase of goods and services			**94,949**	**157,023**

Sales of goods and services:

Figures in NOK 1,000	Relationship	Delivery	2018	2017
Tiffon SA	Associated company (34.75%)	Market support	5,880	3,714
Total sales of goods and services			**5,880**	**3,714**

Receivables from related parties as at 31.12.:

Figures in NOK 1,000	Relationship	Nature of receivable	2018	2017
Tiffon SA	Associated company (34.75%)	Current receivables	1,997	170
Hoff SA	Owner (10%)	Current receivables	0	0
Smakeappen AS	Associated company (50%)	Non-current receivables	506	0
Total receivables from related parties as at 31.12			**2,503**	**170**

Liabilities to related parties as at 31.12.:

Figures in NOK 1,000	Relationship	Nature of liability	2018	2017
Hoff SA	Owner	Current liabilities	492	1,147
Tiffon SA	Associated company (34.75%)	Current liabilities	7,145	10,821
Draaav Konsult AB	Owned by a Board member of Vingruppen i Norden AB (Claes Lindquist)	Current liabilities	32	0
Total liabilities to related parties as at 31.12			**7,669**	**11,968**

All transactions with related parties are on market terms.

1. The property at Gjelleråsen was transferred from Gjelleråsen Eiendom AS to Destilleriveien 11 AS as from 1 Janaury 2018; both companies are controlled by Canica AS. On 30 April 2018, the property was sold from Destilleriveien 11 to Storebrand, and as from that date the rent is no longer a transaction with related parties.

Transactions between Group companies:
Agreements have been reached between the companies in the Group on the cost distribution for internal services and joint procurement. This applies mainly to rent, maintenance and property facility services, as well as shared functions such as finance, IT, payroll, etc. The services are recognised in the various companies' accounts as other income and other operating expenses, respectively.

All buying and selling of goods and services between the companies takes place on market terms and is eliminated in the consolidated financial statements.

NOTE 7 OTHER OPERATING EXPENSES

Figures in NOK 1,000	2018	2017
Sales and marketing costs	-122,518	-122,678
Logistics costs	-64,531	-56,331
Rent	-88,692	-86,706
Property operation	-23,099	-27,950
Repair, maintenance and non-capitalised equipment	-40,307	-37,094
Travel expenses	-15,874	-16,991
Consultants and external outsourcing of services	-46,949	-39,543
Other costs	1,858	-12,650
Total other operating expenses	**-400,112**	**-399,944**
Of which effects which are included in Other income and expenses in the financial statements	-9,218	8,245
Total other operating expenses as presented in the statement of inco-me	**-409,330**	**-391,699**

Other income and expenses:
Other income and expenses comprises significant positive and negative non-recurring items and restructuring costs. The main purpose of this item is to show these significant non-recurring and non-periodic items, so that the development and comparability of the ordinary items presented in the statement of income are more relevant for the activities. See also the section concerning alternative profit measurement (APM).

Figures in NOK 1,000	2018	2017
Personnel policy and other organisational measures[1]	-14,514	-4,922
Other transaction costs	-1,246	-502
Other non-recurring items[2]	10,464	-7,743
Total other income and expenses	**-5,296**	**-13,167**

1 **Personnel policy and other organisational measures:** Costs related to organisational and staffing adjustments in order to meet the restructuring need with new work processes and improved profitability, as well as costs related to a temporary incentive programme with matching shares to selected key employees in conjunction with the IPO in 2016. This programme expires in Q1 2019, and further information about the programme is presented in Note 9.

2 **Other non-recurring items:** Other non-recurring items consist of both positive and negative items.
In 2017, this mainly concerned costs related to a dispute with the Swedish customs authorities and a customer concerning a contract-bottling delivery. These costs primarily comprise Swedish customs and VAT charges levied on the Group in conjunction with the delivery, and related legal fees. In 2018, the Group recovered value added tax (1 MNOK) that had been paid, but is still working to also recover customs expenses.
Further, the positive non-recurring effect in 2018 mainly concerns the reversal of a non-utilised provision for an estimated liability related to the previous sale of a property some years back in time.

Auditors' remuneration
The auditors' fees are specified below. The fees cover the Group auditor, EY, as well as other auditors of Group subsidiaries.

Figures in NOK 1,000	2018	2017
Statutory audit	2,926	3,100
Other financial auditing	91	171
Other certification services	139	69
Tax consultancy services	1,055	170
Other non-audit services	24	42
Total remuneration to the auditors	**4,235**	**3,552**

All amounts are exclusive of VAT.

Total audit fees for the Group include fees to parties other than the Group auditor of TNOK 1,252 for 2018 and TNOK 1,243 for 2017.

NOTE 8 SALARIES AND OTHER PERSONNEL COSTS

Figures in NOK 1,000	2018	2017
Salaries including holiday pay	-296,535	-280,838
Social security costs	-61,005	-58,434
Pension costs including social security costs	-32,057	-32,406
Other personnel costs	-51,561	-50,656
Total salaries and other personnel costs	**-441,158**	**-422,334**
Of which effects included under Other income and expenses in the statement of income (see Note 7)	14,514	4,922
Total salaries and personnel costs as presented in the statement of income	**-426,644**	**-417,412**
Average number of FTEs employed during the year	424	420

Remuneration to senior executives

The terms and conditions for the Group CEO are set by the Board of Directors, which also takes decisions in principle concerning the Group's terms and conditions policy and compensation schemes for other employees. The Board has a remuneration committee which prepares remuneration proposals for decision by the Board. The committee comprises two members of the Board elected by the shareholders. The administration handles cases for the remuneration committee and the Board.

In 2018, the Group Management was covered by the Group's annual bonus system, a temporary share programme (matching shares) that was established in conjunction with the IPO in 2016, as well as an option programme adopted at the Annual General Meetings in 2017 and 2018, under which share options were issued in both 2017 and 2018. The Group CEO has an ordinary bonus agreement which, under certain conditions, will release payment of up to five months' salary, while other members of the Group Management can receive up to four months' salary.

The Group CEO and other members of the executive management have an ordinary occupational pension with Storebrand, which entails 5 per cent pension contributions for salaries from 0 to 7.1G and 11 per cent for salaries from 7.1 to 12G. The Swedish member of the Group Management has a defined contribution pension scheme for which the contribution rate is 25 per cent of the salary. The Group CEO also has a supplementary pension agreement that gives pension earnings of 15 per cent of salaries above 12G. This pension entitlement is capitalised annually in the consolidated statement of financial position and the return is based on the return from the Storebrand Balansert pension fund.

Salaries and other remuneration to the Group Management is shown in the table below. Benefits from sharebased payments to the Group Management is shown in Note 9.

Figures in 1,000 *Local currency*	Currency	Salary	Bonus earned in 2018	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	3,118	0	234	332
Sigmund Toth	NOK	1,897	0	152	87
Erlend Stefansson	NOK	2,144	0	191	87
Erik Bern	NOK	1,960	0	196	87
Bjørn Delbæk	NOK	1,671	0	191	87
Per Bjørkum	NOK	1,602	0	196	87
Eirik Andersen[1]	NOK	475	667	42	22
Thomas Patay[2]	NOK	1,731	0	143	65
Claes Lindquist[3]	SEK	208	0	5	72
Svante Selling[4]	SEK	1,780	251	120	442
Christian Granlund	NOK	1,777	0	167	87

1 Eirik Andersen joined the Group Management on 1 October 2018, and the benefits represent three months in the Group Management.
2 Thomas Patay resigned from the Group Management on 30 September 2018, and the benefits represent nine months in the Group Management.
3 Claes Lindquist was part of the Group Management up to 31 January 2018, when Svante Selling joined the Group Management. The benefits stated represent one month in the Group Management. Claes Lindquist resigned on 31 March 2018.
4 Svante Selling took up the position on 1 February 2018, and the benefits represent 11 months in the Group Management.

Salaries and other remuneration to the Group Management in 2017:

Figures in 1000 *Local currency*	Currency	Salary	Bonus earned in 2017	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	3,031	286	227	386
Sigmund Toth	NOK	1,728	147	146	84
Erlend Stefansson	NOK	2,033	139	179	84
Erik Bern	NOK	1,780	132	190	84
Bjørn Delbæk	NOK	1,572	103	191	84
Per Bjørkum	NOK	1,523	107	137	84
Thomas Patay	NOK	2,288	144	195	84
Lorna Stangeland[1]	NOK	900	0	50	21
Christian Granlund[2]	NOK	870	290	90	45
Claes Lindquist	SEK	2,193	1,031	102	862

1 Lorna Stangeland resigned on 31 March 2017 and the benefits stated represent three months in the Group Management.
2 Christian Granlund was appointed on 12 June 2017 and the benefits stated represent 6.5 months in the Group Management.

If the CEO gives notice of termination, he is subject to six months' notice of termination. If notice of termination is given by the Group, the Group CEO will be entitled to 12 months' severance pay, and during this period will not be able to take employment in competing companies.

Concerning the other Group Management members, Sigmund Toth, Erlend Stefansson, Erik Bern, Eirik Andersen, Svante Selling and Christian Granlund are subject to six months' notice of termination, while Per Bjørkum and Bjørn Delbæk are subject to three months' notice of termination.

Concerning the other Group Management members, Erik Bern and Eirik Andersen are subject to a 12-month non-competition clause, while Sigmund Toth, Bjørn Delbæk, Per Bjørkum, Erlend Stefansson, Svante Selling and Christian Granlund are subject to a six-month non-competition clause. They all have an agreement concerning severance pay during the period to which the non-competition clause applies.

Thomas Patay resigned from the Group Management at the end of Q3 2018. He had a 12-month non-competition clause, which was activated, and which entails that in 2019 he receives monthly salary compensation for this at TNOK 2,133. In addition, in 2019 Thomas Patay will receive payments related to earned rights concerning matching shares, options and severance pay totalling TNOK 3,526.

Claes Lindquist resigned from the Group Management at the end of January 2018. He had a non-competition clause whereby he received severance pay of 60 per cent of 12 monthly salaries after his resignation, in total TNOK 1,497.

Both of these severance agreements were considered and approved by the Group's remuneration committee.

No loans or surety have been provided for the Group CEO, other Group Management or members of the Board of Directors.

The Group Management's holdings of ordinary shares in Arcus ASA are stated in Note 20.

Declaration of the Board of Directors regarding the fixing of salaries and other remuneration to executive personnel
Pursuant to Sections 6-16a of the Norwegian Public Limited Liability Companies Act, the Board of Directors shall prepare a separate declaration on the fixing of salaries and other remuneration to executive personnel.

Furthermore, under Section 5-6(3) of the Norwegian Public Limited Liability Companies Act, an advisory vote must be held at the General Meeting on the Board of Directors' guidelines for fixing remuneration to executive personnel for the coming financial year, see (ii) below. In so far as the guidelines concern share-based incentive arrangements, these must also be approved by the general meeting, see (iii) below.

(i) Salaries and other remuneration to executive personnel
Salaries and other remuneration to executive personnel for the preceding financial year are presented in Notes 8, 9 and 10 to the annual financial statements for Arcus ASA.

(ii) Guidelines for the fixing of salaries and other remuneration to executive personnel
With regard to guidelines for fixing salaries and other remuneration to executive personnel in the coming financial year, the Board of Directors will present the following guidelines to the General Meeting in 2019 for an advisory vote:

The purpose of Arcus' overall compensation policy is to attract personnel with the competence that the Group requires, to further develop and retain employees with key expertise, and to promote a long-term perspective and continuous improvement with a view to achieving Arcus' business goals. As an overall principle, Arcus' policy must be competitive, but not market-leading, in terms of the total compensation package. The total compensation may consist of the following elements:

(a) Fixed elements – Basic salary, pension, etc.
Arcus uses internationally recognised job assessment systems (Hay) to find the "right" level for the position and the fixed salary. Positions are assessed in relation to their local market (country) and a pay range in relation to the median. The employee's area of responsibility, results and performance determine where he or she is placed on the salary scale.

Arcus has a defined contribution occupational pension plan for employees in Norway. The contribution rate is 5 per cent for salaries up to 7.1G and 11 per cent for salaries between 7.1G and 12G (as from 1.5.2018 1G is NOK 96,883). The CEO is the only employee who currently has an occupational pension for salaries above 12G and the contribution rate is 15 per cent. There are no arrangements or agreements regarding an early retirement age for the Group Management other than the national insurance scheme and the AFP arrangement, which allow all employees a flexible retirement age starting at the age of 62. All employees in Norway are subject to a statutory age limit of 72, but the age limit in the Norwegian part of the Group is contractually set at 70, which also applies to the Group Management.

The CEO of Vectura AS has the same pension scheme as the Group Management. The CEO of Vingruppen i Norden AB adheres to the Swedish regulations. The pension scheme in Sweden has different rules and higher contribution rates than in Norway.

In addition to the above, the Group provides benefits such as a company car and company telephone and other limited benefits in kind.

(b) Variable elements – annual bonus
Arcus ASA has an annual bonus system. The bonus system for the Group Management consists of a financial component (70 per cent) tied to a performance-related target for the Group, and an individual component (30 per cent) tied to concrete and defined KPIs for the individual. For other executive positions, the financial element is 50 per cent tied to a performance-related target for the Group or company, and the individual element is 50 per cent.

All bonuses are self-financed. The maximum bonus achievable for Group executives is 30 per cent of their annual salary (four monthly salaries), although the Group CEO may receive a maximum annual bonus of five monthly salaries. In addition to the Group Management, approximately 70 managers and key staff participate in an annual bonus programme, but the criteria vary. These staff members may receive a bonus of between one and three monthly salaries.

The bonus programme for 2019 will consist of the same components, and its primary target will be the Group's and/or the company's earnings (financial element of 70 per cent). Individual bonuses (personal targets), with a maximum percentage of 30 per cent for Group Management, are also a key element of the programme.

Executives of Vectura AS adhere to the same guidelines as the Group Management, but based on the company's EBIT.

Executives of Vingruppen i Norden AB currently adhere to a staggered bonus model, based on the company's EBIT, with maximum five monthly salaries.

(iii) Share-based incentive programmes
In conjunction with the IPO in 2016, the Group Management (nine persons) and an additional 33 managers/key staff were offered the opportunity to invest in shares in exchange for "matching shares" on conditions specified in the prospectus. In total, eight people from the Group Management and a further 29 managers subscribed to the offer. The matching programme was concluded and matching shares were granted to seven persons in the Group Management and 24 persons in addition to the Group Management, after presentation of the result for Q4/2018 in 2019.

The Annual General Meetings in 2017 and 2018 approved an option-based long-term incentive scheme for the Group Management, as well as the CEO of Vectura and the CEO of Vingruppen i Norden, and for certain additional managers and key persons. The primary objective of the programme is to provide executive personnel with incentives to generate long-term and continuous success and value creation for the shareholders. Reference is made to the report concerning the option scheme and the share programme for all employees described in annex 4 to the notice convening the General Meeting, and the Board of Directors' proposal for a continuation of these programmes.

Arcus ASA has managers/key persons in several wine companies in which it has invested as a minority owner, and this mainly concerns the general manager. This model has been a success for the Group, in the form of well-motivated managers who have achieved good results. It is appropriate to continue to allow the general manager of a subsidiary, based on an individual assessment, to be a minority owner, with an ownership interest limited to 9.9 per cent.

Such a model is intended to encourage an entrepreneurship culture, sound business acumen and internal competition between companies which, in turn, can increase the profitability of the company and of the employee. Financing must primarily take place as the employee's contribution of equity.

On starting up or acquiring a new company, greater flexibility (up to 30 per cent ownership interest) must be accepted in terms of how much the employee should/may invest, based on an individual and commercial assessment.

(iv) Executive salary policy in previous financial years
The guidelines for salaries and other remuneration to executive personnel described in item (ii) also served as guidelines for fixing executive salaries and other remuneration in 2018. No bonus was paid for 2018, except for some of the wine companies.

(v) Changes in contractual agreements
CEO Claes Lindquist of Vingruppen i Norden AB resigned in order to take retirement, and was succeeded by Svante Selling, who came from an internal position as sales director in the Spirits business area. Selling took up the position on 1 February 2018. Claes Lindquist continued as an external member of the Board of Directors of Vingruppen i Norden AB as from 1 April 2018, and has also worked on a consultant basis.

CEO Thomas Patay of Vingruppen AS i Norge resigned from his position on 1 October 2018. He was succeeded by Eirik Andersen, who came from a position as general manager of Symposium Wines AS.

The remuneration of the Board of Directors is as follows, as from 11.04.18

Chairman of the Board of Directors	NOK 510,000 p.a.
Board members elected by the shareholders	NOK 230,000 p.a.
Board members elected by the employees	NOK 154,000 p.a.
Deputy member elected by the employees	NOK 7,500 per meeting
Audit Committee	
Chair of the committee	NOK 87,000 p.a.
Member	NOK 41,000 p.a.
Remuneration Committee	
Chair of the committee	NOK 41,000 p.a.
Member	NOK 26,000 p.a.

Remuneration to the members of the Board of Directors in 2018:

Figures in NOK 1000		Board fees including committee work	Number of shares at 31.12.2018
Board members elected by the shareholders			
Michael Holm Johansen	Chairman of the Board	548	156300
Hanne Refsholt		255	0
Leena Maria Saarinen		269	1860
Trond Berger		315	17441
Eilif Due[1]		229	3299325
Stein Erik Hagen[2]		229	28607626
Ann-Beth Freuchen		229	0
Board members elected by the employees			
Erik Hagen			925
Konstanse M. Kjøle	Newly-elected Board member in 2018		681
Ann Therese Jacobsen	Newly-elected Board member in 2018		0

1. Eilif Due owns 2,325 shares on a personal basis. Other declared shareholdings relate to the shareholder Hoff SA, of which he is Chairman of the Board of Directors.
2. Stein Erik Hagen does not own shares on a personal basis. Declared shareholdings relate to the shareholder Canica AS, which is controlled by Stein Erik Hagen and his associate, and of which he is a member of the Board of Directors.

Figures in NOK 1000	Fixed salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	493	153	6	25
Ingrid E. Skistad[1]	317	76	5	18
Kjell Arne Greni[1]	97	76	3	9
Konstanse M. Kjøle[2]	285	77	2	14
Ann Therese Jacobsen[2]	269	77	1	13
Arne Larsen[3]	0	15	0	0

1. Kjell Arne Greni and Ingrid E. Skistad resigned from the Board on 30 June 2018, and the benefits represent six months' membership of the Board.
2. Konstanse M. Kjøle and Ann Therese Jacobsen joined the Board on 1 July 2018, and the benefits represent six months' membership of the Board.
3. Arne Larsen attended two Board meetings as deputy employee representative.

Remuneration to the members of the Board of Directors in 2017:

Figures in NOK 1000		Board fees including committee work	Number of shares on 31.12.2017
Board members elected by the shareholders			
Michael Holm Johansen	Chairman of the Board	480	150000
Mikael Norlander	Resigning Board member in 2017	177	0
Hanne Refsholt		222	0
Leena Maria Saarinen		227	1860
Trond Berger		301	17441
Eilif Due[1]		275	3299325
Isabelle Ducellier	Resigning Board member in 2017	0	0
Stein Erik Hagen[2]	Newly-elected Board member in 2017	150	22670000
Ann-Beth Freuchen	Newly-elected Board member in 2017	150	0
Board members elected by the employees			
Erik Hagen		See the Table below	566
Ingrid E. Skistad[3]		See the Table below	1368
Kjell Arne Greni		See the Table below	0

1. Eilif Due owns 2,325 shares on a personal basis. Other declared shareholdings relate to the shareholder Hoff SA, of which he is Chairman of the Board of Directors.
2. Stein Erik Hagen does not own shares on a personal basis. Declared shareholdings relate to the shareholder Canica AS, which is controlled by Stein Erik Hagen and his associate, and of which he is a member of the Board of Directors.
3. Ingrid E. Skistad owns 322 shares on a personal basis. Other declared shareholdings are held via the company Ibrygging Invest AS, of which she is Chair of the Board of Directors.

Figures in NOK 1000	Fixed salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	495	157	6	25
Ingrid E. Skistad	617	150	4	31
Kjell Arne Greni	185	155	6	9

NOTE 9 SHARE-BASED REMUNERATION

Share-based incentive schemes
Both before and after the IPO the Group has had long-term incentive programmes for managerial employees, which are related to the Group's value added. The Group also has a share savings programme in which all employees can participate.

Matching shares for senior executives and other key persons
Before the Board of Directors in 2017 adopted a new long-term incentive scheme for senior executives, in conjunction with the IPO in 2016 a temporary two-year incentive scheme (interim retention plan) was adopted, in which 37 employees, including the Group Management, were awarded matching shares. These matching shares are granted to recipients in Q1 2019 after the publication of the quarterly report for Q4 2018, if the person in question is still employed at this time. Of the nine members of the Group Management who received this offer, eight accepted the offer, as the remaining person resigned soon afterwards.

For the Group Management, matching shares were granted whereby for each share they acquired in addition to their reinvestment obligations related to the settlement of the completed programme with synthetic shares and options, they also received one matching share. The members of the executive management who did not already hold synthetic shares and options were entitled to receive either one matching share for each share they purchased in total, or one matching share for every two shares they purchased in total.

Other key persons were invited to purchase shares for up to a given amount, with the right to receive one matching share for every two shares they purchased. Of the 33 key persons who received this offer, 29 made use of it.

In 2017 and 2018, six persons who were covered by this programme resigned, so that at the end of 2018 there were 31 persons left in this programme (eight in the Group Management and 23 other key persons).

If the listed share price on the redemption date exceeds two times the listed price on the allocation date, the number of matching shares will be reduced, so that the total value of the matching shares allocated does not exceed twice the value on the allocation date.

Below, the number of matching shares for the Group Management as at 31 December 2018 is presented, of which the fair value is based on Arcus' share price as at 31 December 2018 (NOK 41.00).

Figures in NOK 1000	Allocation date	Number of matching shares on the allocation date	Number of matching shares 31.12.2017	Number of matching shares 31.12.2018	Fair value 31.12.2018	Redemption date
Kenneth Hamnes	01.12.2016	42,100	42,100	42,100	1,726	14.02.2019
Sigmund Toth	01.12.2016	19,767	19,767	19,767	810	14.02.2019
Erlend Stefansson	01.12.2016	27,062	27,062	27,062	1,110	14.02.2019
Erik Bern	01.12.2016	9,956	9,956	9,956	408	14.02.2019
Bjørn Delbæk	01.12.2016	8,692	8,692	8,692	356	14.02.2019
Per Bjørkum	01.12.2016	8,256	8,256	8,256	338	14.02.2019
Eirik Andersen	01.12.2016	7,558	7,558	7,558	310	14.02.2019
Svante Selling	01.12.2016	6,781	6,781	6,781	278	14.02.2019
Total, Group management		**130,172**	**130,172**	**130,172**	**5,337**	
Other managerial employees	01.12.2016	250,587	200,646	123,560	5,066	14.02.2019
Total number of matching shares		**380,759**	**330,818**	**253,732**	**10,403**	

Overview of the development in the number of allocated matching shares:

Number of matching shares	2018	2017
Allocated matching shares at the beginning of the year	330,818	380,759
Allocated matching shares during the year	0	0
Terminated matching shares during the year	-77,086	-49,941
Allocated matching shares at the end of the year	**253,732**	**330,818**

Effects of matching shares in the accounts:

Figures in NOK 1,000	2018	2017
Earning of matching shares	5,574	6,323
Termination of matching shares	-2,321	-80
Change in provision for employer taxes	545	1,252
Total costs related to matching shares	**3,798**	**7,495**
Liabilities[1]	**1,923**	**1,378**

1. Solely includes employer taxes

Option programme for senior executives
In 2017 and 2018, an option programme for senior executives in the Group was adopted, with annual allocation of new options. At settlement, the receivers will receive a corresponding number of shares in Arcus ASA as they have options.

The options' vesting period will be three years from the allocation date, where the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The number of options allocated annually will vary, and will correspond to the individual executive's potential maximum bonus that can be achieved in relation to the listed price on the allocation date. The options' strike price is calculated as the volume-adjusted listed price for the last ten days prior to the allocation date, with the addition of 10 per cent.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

Below the Group Management's options holdings are listed. There has not been any settlements during 2018.

Allocation date	# 2018	# 2017
Vesting period	11.4.2018 - 11.04.2021	04.05.2017 - 04.05.2020
Redemption period	11.4.2021 - 11.04.2023	04.05.2020 - 04.05.2022
Redemption price	NOK 45.22	NOK 51.53

Number of options	2018	2017	2018	2017
Kenneth Hamnes	243,457	0	199,426	199,426
Sigmund Toth	125,103	0	90,773	90,773
Erlend Stefansson	135,053	0	110,628	110,628
Erik Bern	117,862	0	96,546	96,546
Bjørn Delbæk	103,166	0	84,508	84,508
Per Bjørkum	100,745	0	82,524	82,524
Eirik Andersen	69,136	0	57,765	57,765
Svante Selling	117,174	0	53,816	53,816
Christian Granlund	116,859	0	95,724	95,724
Total, Group Management	**1,128,555**	**0**	**871,710**	**871,710**
Other managerial employees	215,935	0	201,300	357,594
Total number of options	**1,344,490**	**0**	**1,073,010**	**1,229,304**

Basis for calculation of options:		2018	2017	2018	2017
Share price on the allocation date	NOK	43.70		47.90	47.90
Share price on the date of statement of financial position	NOK	41.00		41.00	46.50
Redemption price - minimum	NOK	45.22		51.53	51.53
Redemption price - maximum	NOK	131.10		143.70	143.70
Risk-free interest	%	1.4%		1.2%	1.1%
Volatility*	%	22.0%		22.0%	25.0%
Expected dividend	%	3.4%		3.4%	3.1%

* As the company has no historical volatility figures to apply, the company has calculated an average volatility for comparable companies on European exchanges within the same sector for the last five years.

Overview of development in the number of allocated options:

Number of options	2018	2017
Outstanding options at the beginning of the year	1,229,304	0
Allocated options during the year	1,534,306	1,407,369
Redeemed options during the year	0	0
Terminated options during the year	-346,110	-178,065
Outstanding options at the end of the year	**2,417,500**	**1,229,304**

Effects of options in the accounts:

Figures in NOK 1,000	2018	2017
Earning of options	3,855	1,655
Termination of options	-386	0
Change in provision for employer taxes	335	265
Total option costs	**3,804**	**1,920**
Liabilities[1]	**600**	**265**

1. Solely includes employer taxes

Share savings programme for all employees
The Group also has a general share savings scheme for all employees, under which all employees will annually have the opportunity to buy a limited number of shares in Arcus ASA, with a discount of 20 per cent. Sale of shares to employees below market value is recognised as a personnel cost comprising the difference between the market value of the shares and the purchase price.

In 2018, a total of 76 employees subscribed for a total of 26,744 shares. These shares were purchased at an average price of NOK 41.67 and sold to the employees at a discount of 20 per cent, whereby each employee could purchase either 359 or 179 shares. For this, costs of TNOK 258 were charged to the consolidated accounts in 2018.

	2018	2017
Number of employees who purchase shares at a discount	76	100
Number of shares purchased at a discount	26,744	31,234
Average price per share for purchase by employees at a discount (NOK)	41.67	46.56
Total cost for the Group (TNOK)	258	290

NOTE 10 PENSION COSTS, ASSETS AND OBLIGATIONS

Defined benefit pension plan
Up to 31 December 2008, Arcus ASA and its subsidiaries in Norway had a group defined benefit plan for their employees in Statens Pensjonskasse (the Norwegian Public Service Pension Fund – SPK) and Storebrand. The SPK pension plan also included a contractual early retirement plan (AFP) with financing from the commencement of employment. As at 31 December 2008, the Group Board of Directors terminated the SPK group pension plan for the entire Group in order to switch to defined contribution pension plans.

With the transition to the new pension plan, all those who were ill or disabled remained in the respective defined benefit plans in Statens Pensjonskasse (SPK) and Storebrand. SPK has confirmed that Arcus no longer has any legal obligations associated with the remaining pension recipients who are linked to the SPK defined benefit plans, but is only obliged to pay annual premium contributions specified by SPK, according to the same principle as for defined contribution plans. The Group therefore carries the current invoices from SPK to expenses in the same way as for the defined contribution plan. Within the pension obligation as at 31 December 2018, a provision of NOK 1.3 million is linked to five individuals in the Storebrand defined benefit plan. This is the only pension obligation secured with assets.

In addition, two individuals, who are no longer employed by the company, have a defined benefit plan for salaries above 12G (National Insurance base amount). This plan has been recognised with obligations totalling NOK 4.1 million at the end of 2018.

Gift pension and unfunded pension arrangement
On the transition to the defined contribution plan in 2009, there were individual employees who had previously been with SPK who would be disadvantaged in the event of early retirement at 65-67 years of age. To compensate for this, it was agreed that a gift pension would be paid to all employees who were with SPK before the transition. As at 31 December 2018, this gift pension is linked to 130 employees in the Norwegian operations, while the total obligation has been recognised at NOK 12.1 million.

The Group CEO has an unfunded pension arrangement in which the pension entitlement earned is 15 per cent of the salary above 12G. At the end of 2018, this obligation was recognised at NOK 1.0 million.

Contractual early retirement plan pension (AFP)
On 1 January 2011, a new contractual early retirement plan (AFP) pension scheme was introduced in Norway. This AFP plan gives a lifelong supplement to the ordinary pension plan. Employees can choose to take out the new AFP pension as from the age of 62, also while continuing to work. This new AFP plan is a collective-agreement based defined benefit multi-enterprise pension scheme, and is financed through premiums that are set as a percentage of salary. So far no reliable measurement and allocation of obligations and assets is available for the plan. In accounting terms, the plan is treated as a defined contribution pension plan in which premium payments are charged as current costs and no provisions are made in the financial statements. In 2017 and 2018, the current premium payments were set at 2.50 per cent of total salary payments between 1 G and 7.1 G to the company's employees. It has been decided not to change the premium payments for 2019. There is no accumulation of funds in the plan and it is expected that the premium level will increase over the coming years.

There are some seniority requirements associated with the new AFP plan with regard to accumulated length of employment in the scheme, and the limited liability company must be subject to a collective agreement. There are three limited liability companies in Norway, with a total of eight persons, who were not subject to the AFP plan as at 31 December 2018. This means that on reaching the age of 62, the individual employee must have been employed for seven of the previous nine years in order to fulfil the seniority requirements to be able to draw an AFP pension under the new scheme.

For the Arcus Group there were 17 individuals who did not fulfil this seniority requirement on the introduction of the new AFP plan. In 2011, Arcus applied for these individuals to have their accumulated period of employment in the old AFP plan in SPK included before transition to the LO/NHO (Norwegian Confederation of Trade Unions/ Confederation of Norwegian Enterprise) plan from 1 January 2009. Fellesordningen (Joint Pension Plan) gave its consent to this in return for Arcus paying the entire excess above and beyond the state supplement of 1/3 of the AFP pension. At the beginning of 2018, this obligation was NOK 5.2 million, and on the basis that all persons subject to this obligation at the end of 2018 were aged over 70, the Group has recognised the remainder of this obligation to OCI, so that at the end of the year no obligation for this had been booked.

Defined contribution pension
The Arcus Group's general pension plan for all other employees concerns defined contribution pension plans which are adapted to the regulations in the individual countries in which the Group has employees.

Norway
The general defined contribution pension plan has contribution rates of 5 per cent of salaries in the bracket from 0 to 7.1 times the National Insurance basic amount (G), and 11 per cent of salaries in the bracket from 7.1 to 12 times the National Insurance basic amount (G). There is also a disability scheme of 69 per cent, plus 18 per cent of the basic amount (G), as the benefit level, without free policy accumulation. Arcus ASA with subsidiary has group life insurance on death of up to 10G for all employees.

The costs associated with the defined contribution pension plan are related to the current premium invoices from the insurance company with which Arcus has signed a defined contribution pension agreement. The current defined contribution pension plans and disability pensions for employees in the defined contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined contribution pension plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised liability related to this was NOK 2.6 million at the end of 2018.

Sweden
In Sweden, the contributions are, to a great extent, individually agreed contribution rates based on individual salaries, and these can vary considerably. In 2018, the contribution rates, including insurance schemes, varied from 9 to 34 per cent of the individual's salary from January to March, while from April and for the rest of the year the contribution rates varied from 9 to 30 per cent of the individual's salary. The contribution rates apply as from the first krone earned.

Denmark
The general defined contribution pension scheme in Denmark has contribution rates varying from 8 to 10 per cent. The contribution rates apply as from the first krone earned.

Finland
The general defined contribution pension scheme in Finland has contribution rates of 18.95 per cent for employees aged below 53, and 17.45 per cent for employees aged over 53.

Germany
The contribution rate in Germany is 18.6 per cent of the employee's salary, up to the maximum calculation basis of EUR 78,000. The pension contribution in Germany is shared 50/50 between the employer and the employee, so that net cost for the German business is 9.3 per cent.

Other matters
The Group applies a discount rate equivalent to the covered bond interest rate to its pension commitments. The pension assumptions made by the Group are consistent with the recommendations of the Accounting Standards Board from September 2018. Due to the lack of significance, the assumptions were not updated as of 31 December 2018.

The table presents both defined benefit and other actuarially calculation pension obligations.

Figures in NOK 1,000

Pension costs	**2018**	**2017**
Present value of pension earnings for the year	687	778
Interest cost of pension obligations	870	890
Return on pension assets	-231	-215
Administration costs	109	174
Accrued social security contributions	202	218
Net pension costs after social security contributions	**1,637**	**1,845**

Defined contribution pension plan		
Recognised contributions excluding social security contributions	30,420	30,561

Figures in NOK 1,000

Net pension obligations:	**2018**	**2017**
Estimated accrued obligations, funded pension plans	9,058	14,436
Estimated value of pension assets	-7,721	-10,328
Net estimated pension obligations (+) /assets (-)	**1,337**	**4,108**
Estimated accrued obligations, non-funded pension plans	19,740	26,444
Net pension obligations recognised in the statement of financial position	**21,077**	**30,552**

Changes in obligations:		
Net pension obligations 01.01	30,552	34,092
Pension costs, continued operations	1,637	1,845
Paid out through operations	-809	-743
Premium payments including SSC	-403	-204
Estimate deviations recognised directly in equity (IAS19R)	-9,900	-4,438
Net pension obligations 31.12.	**21,077**	**30,552**

Summary of pension assets:		
Shares and other equity instruments	7,721	10,328
Total pension assets 31.12.	**7,721**	**10,328**

Financial assumptions:		
Discount rate	2.60%	2.30%
Expected salary adjustment	2.75%	2.50%
Expected pension increase	1.75%	1.50%
Expected adjustment of the National Insurance basic amount (G)	2.50%	2.25%
Expected return on pension assets	2.60%	2.30%

Actuarial and demographic assumptions		
Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

Sensitivity analysis of net pension obligations:
The table below shows the effects of changes in pension obligations, deferred tax assets and equity in the event of a change in the most important economic assumptions by one percentage point up or down. The calculations are otherwise carried out in the same way as the actuarial calculations and are based on all other economic and demographic assumptions remaining unchanged.

Sensitivity 2018	Discount rate		Salary growth		Adjustment of NI basic amount (G)	
Change in percentage points	**1%**	**-1%**	**1%**	**-1%**	**%**	**-1%**
Change in pension obligations	-2,002	2,361	1,960	-1,749	1,960	-1,749
Change in deferred tax assets	441	-519	-431	385	-431	385
Change in equity	1,562	-1,841	-1,529	1,365	-1,529	1,365
Percentage change in obligations	**-9.5%**	**11.2%**	**9.3%**	**-8.3%**	**9.3%**	**-8.3%**

Sensitivity 2017	Discount rate		Salary growth		Adjustment of NI basic amount (G)	
Change in percentage points	**1%**	**-1%**	**1%**	**-1%**	**1%**	**-1%**
Change in pension obligations	-3,116	3,697	6,019	-4,980	-2,566	2,597
Change in deferred tax assets	717	-850	-1,384	1,145	590	-597
Change in equity	2,400	-2,847	-4,634	3,835	1,976	-2,000
Percentage change in obligations	**-10.2%**	**12.1%**	**19.7%**	**-16.3%**	**-8.4%**	**8.5%**

Summary of cash flows related to pension plans

Figures in NOK 1,000	2018	2017
Premium payments, Storebrand defined benefit plan recognised in the statement of financial position	403	204
Payments from operations, gift pension at 65-67 years of age	809	743
Premium payments, AFP plan not recognised in the statement of financial position	4,197	4,069
Premium payments, remaining in SPK	84	72
Premium payments, defined contribution pension	27,254	29,240
Total	**32,747**	**34,328**

All figures include social security costs.

Premium payments associated with ordinary defined contribution pension schemes are the largest disbursement items associated with pensions. The basis for the premium payments to the defined contribution plan is calculated according to the actual salaries and will reflect the salary development within the company.

Premium payments to the AFP plan are also calculated on the basis of actual salaries, in addition to how the premium rate is expected to increase in the years ahead. The premium rate was 2.50 per cent in 2017 and 2018 and this will remain unchanged in 2019.

NOTE 11 FINANCIAL INCOME AND COSTS

Figures in NOK 1,000	2018	2017
Financial income		
External interest income	12,906	6,654
Total interest income	**12,906**	**6,654**
Value adjustment of foreign exchange forward contracts at fair value	0	1,837
Value adjustment of co-investment programme (synthetic shares and options)	0	13,821
Agio gains[1]	27,727	24,915
Other financial income	13	731
Total other financial income	**27,740**	**41,304**
Total financial income	**40,646**	**47,958**
Financial costs		
Interest costs to financial institutions	-37,302	-31,454
Interest costs on liabilities at fair value	-104	-21
Amortization of front-end fee related to credit facilities at SEB[2]	-1,623	-1,652
Total interest costs	**-39,029**	**-33,127**
Value adjustment of minority options at fair value	-2,560	-147
Value adjustment of foreign exchange forward contracts at fair value	-369	0
Agio loss[1]	-26,178	-22,061
Other financial costs	-8,626	-7,166
Total other financial costs	**-37,733**	**-29,374**
Total financial costs	**-76,762**	**-62,501**
Net financial profit/loss	**-36,116**	**-14,543**

1. From 2018 the Group presents gross agio gains and losses within other financial income and other financial costs. In former annual reports, agio gains and agio losses has been presented on a net basis as either financial income or financial costs, depending on whether there has been net agio gains or net agio losses.
2. Amortization of front end fees related to credit facilities in SEB is from 2018 presented as interest cost. This was earlier presented as other financial costs. This has also been re-classified in the 2017 figures.

NOTE 12 TAX

Tax for the year is calculated as follows:

Figures in NOK 1,000	2018	2017
Tax payable	-31,141	-37,463
Change in deferred tax	-25,595	-34,306
Insufficient provision in previous years	-27	1,241
Tax	**-56,763**	**-70,528**

Tax cost breakdown by country	2018	2017
Tax - Norway	-27,498	-34,883
Tax - Sweden	-19,594	-26,194
Tax - Denmark	-6,760	-7,343
Tax - Finland	-2,767	-2,220
Tax - Germany	-144	112
Total tax cost	**-56,763**	**-70,528**

Reconciliation from nominal to actual tax rates	2018	2017
Pre-tax profit	221,180	258,750
Expected income tax at the nominal tax rate in Norway	-50,871	-62,100
Tax effect of the following items:		
Non-deductible costs	-2,804	-7,638
Non-taxable income	361	33
Insufficient provision in previous years	27	1,241
Change in non-capitalised tax assets	130	213
Change in tax rate	-5,017	-4,859
Differences in tax rates	1,132	3,366
Profit share, associated companies	532	789
Other	-253	-1,573
Tax	**-56,763**	**-70,528**
Effective tax rate	**26%**	**27%**

Tax on items in OCI
Tax on items in OCI are entirely due to changes in deferred tax associated with pension obligations in Norway.

Tax payable by country in the statement of financial position	2018	2017
Tax liability to Norway	1,472	1,907
Tax liability to Sweden	-11,521	-5,336
Tax liability to Denmark	5,990	5,451
Tax liability to Finland	276	382
Tax liability to Germany	-617	-276
Total tax liabilities payable, see also Note 17	**-4,400**	**2,128**

Tax paid during the period, per country	2018	2017
Tax paid to Norway	-3,053	-896
Tax paid to Sweden	-27,216	-22,412
Tax paid to Denmark	-6,344	-7,510
Tax paid to Finland	-2,871	-1,851
Tax paid to Germany	-507	-552
Total tax paid	**-39,991**	**-33,221**

Specification of tax effect of temporary differences and deficit carried forward:

	2018		2017	
	Asset	Liability	Asset	Liability
Property, plant and equipment	-5,960	394	-3,093	532
Intangible fixed assets	-42,377	-102,262	-45,585	-101,588
Financial assets	-638	0	-931	0
Inventories	-10,686	0	-10,271	0
Trade receivables	1,429	0	1,545	0
Pension obligations	4,524	0	6,604	0
Provisions	5,162	0	5,781	0
Temporary tax fund	-661	23	-864	24
Deficit carried forward	159,365	0	183,600	0
Total deferred tax, gross	**110,158**	**-101,845**	**136,786**	**-101,032**
Unrecognised deferred tax assets	0	0	0	0
Net deferred tax in the statement of financial position	**110,158**	**-101,845**	**136,786**	**-101,032**

At the end of the year, the Group had NOK 159.4 million in capitalised deferred tax assets associated with the deficit carried forward from the Norwegian business. Based on an assessment and analysis of the Group's earnings in Norway historically and the future prognosis it is assessed that the deficit carried forward can be utilised in full, and on this basis it is carried to the statement of financial position.

Deferred tax positions are calculated on the basis of local tax rates in the respective countries on the reporting date. At the end of 2018, the rates were 22 per cent in Norway, 21.4 per cent in Sweden, 22 per cent in Denmark and 20 per cent in Finland.

At the end of 2018, deferred tax assets were associated with net negative temporary differences for the tax regimes in Norway and Sweden, while deferred tax liabilities were linked to net positive temporary differences for the tax regime in Denmark. The same applied to the end of 2017.

NOTE 13 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

2018

Figures in NOK 1,000	Company type	Ownership interest	Book value 1.1.2018	Buy/sell/ issue	Share of profit for the year	Dividend	Translation differences	Book value 31.12.2018
Tiffon SA[1]	TS	34.8%	58,670	0	2,311	-445	636	61,172
Smakeappen AS[2]	TS	50.0%	0	119	0	0	0	119
Total investments in associated companies and jointly controlled entities			**58,670**	**119**	**2,311**	**-445**	**636**	**61,291**

2017

Figures in NOK 1,000	Company type	Ownership interest	Book value 01.01.2017	Buy/sell/ issue	Share of profit for the year	Dividend	Translation differences	Book value 31.12.2017
Tiffon SA[1]	TS	34.8%	48,029	454	3,286	0	6,901	58,670
Det Danske Spiritus Kompagni A/S[3]	FKV		8,782	-8,782	0	0	0	0
Total investments in associated companies and jointly controlled entities			**56,811**	**-8,328**	**3,286**	**0**	**6,901**	**58,670**

1. The Group buys Cognac from Tiffon SA, see detailed information on these transactions with associates in Note 6. Tiffon SA has a financial year from 1 July to 30 June. The share of profit from Tiffon is based on an estimated annual profit for the calendar year that is equivalent to the Group's financial year.
2. Smakeappen AS runs an app which gives consumers wine tips and wine importers a useful tool in conjunction with wine fairs. Smakeappen is a cooperation venture between Vectura and Hegnar Media. Vectura contributes product data and Hegnar Media has the full editorial responsibility.
3. Danske Spiritus Kompagni A/S was established in 2013 to handle sales of Arcus products in Denmark, and was owned jointly with Flemming Karberg Familieholding ApS. In January 2017, the Arcus Group acquired the rest of the shares in the company, and as from this date the company is recognised as a wholly-owned subsidiary, and consolidated in the consolidated accounts. Both ownership and voting shares, as well as Board composition, are divided 50/50 between Arcus and Flemming Karberg Familieholding ApS. See detailed information on transactions with related parties in Note 6.

None of the associated companies or jointly controlled entities has listed share prices. The Group's share of profit from associated companies, after tax, is presented on a separate line before Group operating profit.

Summarised financial information regarding associated companies and jointly controlled entities, based on 100 per cent:

2018

Figures in NOK 1,000	Total current assets 31.12.2018	Total fixed assets 31.12.2018	Total current liabilities 31.12.2018	Total non-current liabilities 31.12.2018	Total equity 31.12.2018	Operating revenue 2018	Operating expenses 2018	Profit for the year 2018
Tiffon SA	326,321	16,914	31,700	135,519	176,016	103,724	91,961	6,650

2017

Figures in NOK 1,000	Total current assets 31.12.2017	Total fixed assets 31.12.2017	Total current liabilities 31.12.2017	Total non-current liabilities 31.12.2017	Total equity 31.12.2017	Operating revenue 2017	Operating expenses 2017	Profit for the year 2017
Tiffon SA	329,085	16,933	33,193	144,009	168,815	101,248	82,784	9,457

NOTE 14 TANGIBLE FIXED ASSETS

Figures in NOK 1,000	Land, buildings and other real estate	Machinery and equipment	Fixtures and fittings, tools, office equipment etc.	Assets under construction	Total tangible assets
Acquisition cost as at 01.01.2017	**0**	**571,320**	**85,703**	**2,732**	**659,755**
Addition of property, plant and equipment	0	5,320	2,857	7,717	15,894
Transferred from facilities under construction	0	2,693	290	-4,771	-1,788
Disposal at cost	0	-30,643	-358	0	-31,001
Translation differences	0	185	524	0	709
Acquisition cost as at 01.01.2018	**0**	**548,875**	**89,016**	**5,678**	**643,569**
Addition of property, plant and equipment	0	12,487	554	6,771	19,812
Addition of equipment via financial lease	0	3,062	0	0	3,062
Transferred from facilities under construction	0	3,858	1,673	-7,535	-2,004
Disposal at cost	0	0	-6,096	0	-6,096
Translation differences	0	-92	-251	0	-343
Acquisition cost 31.12.2018	**0**	**568,190**	**84,896**	**4,914**	**658,000**
Accumulated depreciation 01.01.2017	**0**	**-245,271**	**-64,249**	**0**	**-309,520**
Ordinary depreciation	0	-29,567	-5,009	0	-34,576
Disposal, accumulated depreciation	0	30,643	358	0	31,001
Translation differences	0	-146	-502	0	-648
Accumulated depreciation 01.01.2018	**0**	**-244,341**	**-69,402**	**0**	**-313,743**
Ordinary depreciation	0	-30,635	-4,178	0	-34,813
Disposal, accumulated depreciation	0	0	6,096	0	6,096
Translation differences	0	59	240	0	299
Accumulated depreciation 01.01.2018	**0**	**-274,917**	**-67,244**	**0**	**-342,161**
Book value as at 31.12.18	**0**	**293,273**	**17,652**	**4,914**	**315,839**
Of which book value of capitalised leases	0	163,264	0	0	163,264
Ordinary depreciation for the year – capitalised leases	0	-16,495	0	0	-16,495
Book value of capitalised interest costs	0	2,946	0	0	2,946
Annual leasing fee for non-capitalised tangible fixed assets	90,613	4,237	900	0	95,750

CONSOLIDATED FINANCIAL STATEMENTS WITH NOTES

Both the parent company and the Group use straight-line depreciation for all property, plant and equipment.

The economic life of property, plant and equipment is estimated as follows:

Machines, vehicles and plant	3-15 years
* Office machinery and inventory	4-10 years
* Land, buildings and other real estate	0 years

No indications of impairment or a need to adjust the useful lives of assets were identified during the period.

NOTE 15 INTANGIBLE ASSETS

Figures in NOK 1,000	Goodwill	Trademarks	Software	Total
Acquisition cost 01.01.2017	**1,010,176**	**715,332**	**119,736**	**1,845,244**
Addition of intangible assets	0	118,611	6,209	124,820
Transferred from facilities under construction	0	0	1,788	1,788
Acquisition of business	16,583	3,900	0	20,483
Translation differences	38,537	35,403	136	74,076
Acquisition cost 01.01.2018	**1,065,296**	**873,246**	**127,869**	**2,066,411**
Addition of intangible assets	0	43	3,227	3,270
Transferred from facilities under construction	0	0	2,004	2,004
Translation differences	-466	2,948	-107	2,375
Acquisition cost 31.12.2018	**1,064,830**	**876,237**	**132,993**	**2,074,060**
Accumulated depreciation 01.01.2017	**0**	**-46,095**	**-89,085**	**-135,180**
Ordinary depreciation	0	0	-9,621	-9,621
Amortization	0	-7,396	0	-7,396
Impairment	-22,700	0	0	-22,700
Translation differences	0	-53	-12	-65
Accumulated depreciation 01.01.2018	**-22,700**	**-53,544**	**-98,718**	**-174,962**
Ordinary depreciation	0	0	-7,487	-7,487
Amortization	0	-7,705	0	-7,705
Translation differences	0	21	-36	-15
Accumulated depreciation 31.12.2018	**-22,700**	**-61,228**	**-106,241**	**-190,169**
Book value 31.12.2018	**1,042,130**	**815,009**	**26,752**	**1,883,891**
Of which capitalised value of assets with indefinite useful lives	1,042,130	779,632	0	1,821,762
Economic life of intangible assets with identifiable useful lives		10-19 years	3-10 years	
Depreciation plan		Straight line	Straight line	

Impairment testing

Goodwill is allocated to the Group's cash-generating units and is tested for impairment annually, or more often if there are indicators that the values may have been subject to impairment. Testing for impairment involves determining the recoverable amount for the cash-generating unit. The recoverable amount is determined by discounting expected cash flows, based on the cash-generating entity's Board-approved business plans. The cash-generating entity is the lowest level at which it is possible to follow up operations comprising the relevant goodwill. At the end of 2018, cash-generating units related to impairment testing of goodwill are defined at business area level. The same is carried out for brands with indefinite useful lives. The cash-generating unit for impairment testing of brands is the brand itself.

The discount rate used for both brands and goodwill is 8.9 per cent before tax, and reflects estimated risk and capital costs for the Group, based on a capital structure considered representative for the activities in which the Arcus Group is engaged.

Recoverable amount on impairment testing of goodwill

The recoverable amount for the cash-generating units is calculated on the basis of the present value estimate of the expected cash flows before tax. The cash flows used as the basis for the impairment test are based on assumptions about future sales volume, sales prices, purchase prices for input factors, salary development and other direct costs set out in Board-approved budgets and long-term plans. The terminal value is based on the cash flow in the last forecast year (2023). The terminal value does not include assumptions about real growth but does include assumptions regarding reinvestments corresponding to expected depreciation of the entities' fixed assets.

CGU related to goodwill from the acquisition of the production activity in Denmark is assessed to be the entire Spirits segment since, as from 2015, the business in Denmark was integrated with other spirits operations in the Group.

In 2018, the Group has performed impairment tests whereby recoverable amounts on impairment testing of goodwill are based on the 2019 budget and with real growth up to 2022 in both revenue and EBITDA equivalent to other long-term plans. The impairment tests have not entailed impairment, and downward adjustment of the estimated cash flows by 20 per cent, or an increase in the discount rate by 2 per cent, would either not have entailed impairment of other goodwill.

Recoverable amount on impairment testing of brands

The recoverable amount for the brands is calculated on the basis of a "relief from royalty" method before taxes, whereby the brand's annual royalty is estimated as future revenues for the brand multiplied by a long-term expected profit level for the relevant brands. Cash flow estimates used are discounted using a discount rate.

Downward adjustment of the estimated cash flows by 20 per cent, or an increase in the discount rate by 2 per cent, would not have entailed impairment for any of the brands.

The table below shows the Group's intangible assets with indefinite useful lives (goodwill and brands) by cash-generating unit. The most important brands are presented individually, while less important brands are presented under other brands.

Figures in NOK 1,000	Category	Currency	Segment	Goodwill	Brands	Total
Cash-generating unit						
Norwegian aquavits	Aquavit	DKK	Spirits	0	119,844	119,844
Danish aquavits	Aquavit	NOK	Spirits	0	293,018	293,018
Other aquavits	Aquavit	NOK, DKK, SEK	Spirits	0	12,947	12,947
Danish bitters	Bitter dram	NOK	Spirits	0	162,492	162,492
Norwegian cognac	Cognac	NOK	Spirits	0	15,005	15,005
Norwegian vodka	Vodka	NOK	Spirits	0	34,700	34,700
International vodka	Vodka	NOK	Spirits	0	67,472	67,472
Agency wine	Agency wine	NOK	Wine	0	3,787	3,787
Other brands	Other	NOK, DKK	Spirits	0	105,744	105,744
Spirits segment		DKK	Spirits	427,007	0	427,007
Spirits segment		NOK	Spirits	381,346	0	381,346
Wine Sweden - agency brands		SEK	Wine	91,649	0	91,649
Wine Finland - agency brands		EUR	Wine	26,912	0	26,912
Wine Norway - agency brands[1]		NOK	Wine	57,608	0	57,608
Wine Norway - own wine brands[1]		NOK	Wine	57,608	0	57,608
Total				**1,042,130**	**815,009**	**1,857,139**

1. The Group has during 2018 reorganized the Norwegian wine business, which has encountered a more significant distinction between the agency brand business and the own wine brands business. As a result, goodwill has been reallocated between these two cash generating units. This reallocation is based on a relative calculation method after the reorganization, in accordance with IAS 36.

The various cash-generating entities listed below include the following known brands:

Cash-generating unit	Brands
Norwegian aquavits	Lysholm Linie, Løiten Linie, Gammel Opland and Gilde, and other Norwegian aquavits
Danish aquavits	Aalborg
Other aquavits	Malteserkreutz and Snälleröds
Danish bitters	Gammel Dansk
Norwegian cognac	Braastad cognac
Norwegian vodka	Vikingfjord, Amundsen and Brennevin Seksti
International vodka	Vanlig, Dworek, Hammer, Kalinka and Dobra
Agency wine	Doppio Passo and Pietro de Campo
Other brands	Hot n'Sweet, Dooley's, Eau de Vie, Golden Cock, St. Hallvard, Upper Ten, Dry Anis and Star Gin

NOTE 16 LEASES

Operational leasing agreements

As at 31 December 2018, the Group had the following leasing agreements which are defined and recognised as operational leasing agreements. There were no significant terms and conditions concerning sub-lease, purchase, escalation or restrictions to the operational leasing agreements as at 31 December 2018.

Figures in nominal NOK 1,000	Annual leasing cost	Due date within 1 year	Due date 2-5 years	Due date after more than 5 years	Total
Leased premises	90,613	88,087	348,641	1,169,099	1,605,827
Machinery and equipment	4,237	3,706	2,867	0	6,573
Fixtures and fittings and office equipment	900	896	1,252	0	2,148
Total	**95,750**	**92,689**	**352,760**	**1,169,099**	**1,614,548**

This overview includes the agreement concluded with Gjelleråsen Eiendom AS on the lease of production, distribution and administration buildings at Gjelleråsen for a term of 25 years starting on 1 January 2012. The annual rent under this agreement is TNOK 82,627 as from 2019.

Financial leasing agreements

As at 31 December 2018, the Group had entered into seven contracts to lease machinery and equipment used at Gjelleråsen. This equipment was recognised in the Arcus Group's statement of financial position as at 31 December 2018.

Figures in nominal NOK 1,000	Annual leasing cost	Due date within 1 year	Due date 2-5 years	Due date after more than 5 years	Total
Machinery and equipment	18,063	18,063	150,101	1,293	169,457
Total	**18,063**	**18,063**	**150,101**	**1,293**	**169,457**

Agreements with Nordea

Four of the agreements were entered into as of 1 June 2012 and are mainly related to machinery and equipment in the production and distribution activities at Gjelleråsen. The contract partner for the four agreements is Nordea, and the agreements are subject to variable interest rates. Even though, in principle, the leasing agreements have been entered into with a 15-year repayment and interest profile (annuity), the actual terms of the agreements are for a shorter period of time, with the option of renewal. Remaining capitalised lease liabilities will fall due in the course of the last 12 months of the agreement period. The Group and Nordea are in continuous dialogue concerning an extension of the agreements to a total maturity profile of 15 years. All changes to the agreements must be formally handled by the landlord.

The present value of future lease payments is NOK 167,5 million as at 31 December 2018, based on a discount rate equivalent to the effective interest rate on the financing in 2018.

Arcus-Gruppen AS has pledged a 100 per cent surety guarantee for all liabilities that the subsidiaries have undertaken or may undertake in connection with the signed leasing agreements.

Agreements with Volvo Finans

The other three financial leasing agreements are new agreements in 2018 and are related to the lease of trucks in the distribution activity. The contract partner for these agreements is Volvo Finans, and they have a term of seven years, at variable interest rates.

The present value of future lease payments is NOK 3,0 million as at 31 December 2018, based on a discount rate equivalent to the effective interest rate on the financing in 2018.

Implementation of IFRS 16 Leases from 1 January 2019

As from 1 January 2019, the existing lease standard (IAS 17) is replaced by a new, updated standard for accounting treatment of leases (IFRS 16). The Group will implement this as from the same date.

The new standard concerning leases will entail a significant change in the accounting policy related to leasing costs. As from financial years commencing in 2019, all significant leasing agreements must be capitalised. This will give an intangible right on the asset side and an equivalent liability on the liability side.

On the implementation of IFRS 16, the Group has two implementation options: the full retrospective method or the modified retrospective method. The Group has chosen to implement IFRS 16 using the modified retrospective method, which means that the effects calculated on the implementation date will be based on the remaining period of the lease as from the implementation date, and there will be no adjustment to equity on the implementation date.

On the implementation date, the Group, as lessee, also has a number of options concerning the use of simplifications. The Group has chosen to use these simplification options, so that:

- Software licences will not be included in the calculation basis.
- Short-term lease agreements expected to be for shorter terms than 12 months will not be included in the calculation basis.
- Insignificant lease agreements (annual charge under TEUR 5) will not be included in the calculation basis.
- Any service elements in the lease charge will not be separated from the annual lease charge in the calculation basis.

The Group has some lease agreements that are classified as financial leasing. These are already recognized as an asset and liability in the statement of financial position as at 31 December 2018, and this will not be changed as a consequence of IFRS 16.

The Group also has significant leasing agreements classified as operational leasing agreements, and for these a present value will be calculated that is classified in the statement of financial position as an tangible leasing right on the asset side, and a lease obligation on the liability side. The Group has mapped all significant leasing agreements, and the calculated book values are stated in the table below.

For most of the leasing agreements, the underlying internal interest rate for the Group as lessee is unknown. For the leasing agreements for which the Group does not know the underlying internal interest rate, the discount rate is set to be equivalent to the Group's calculated average interest rate related to other financing. In cases where the Group knows the underlying internal interest rate which is the basis for the annual lease charge related to the leasing agreement, the present value is calculated on the basis of the actual internal interest rate.

The period of the lease is set as the period specified in the leasing agreement. If the leasing agreement includes options for renewal, the probability of the Group using the option is assessed. In cases where the probability is estimated to be higher than 50 per cent, the fixed period of the lease also includes the renewal period based on the option.

In connection with the introduction of IFRS 16 concerning leases as from 2019, the Group's reported net interest-bearing debt and adjusted EBITDA will change significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to the current model, regardless of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms will not be affected by the introduction of IFRS 16.

Overview of calculated recognised leasing rights and obligations as from 1 January 2019

Figures in NOK 1,000	Land, buildings and other real estate	Machinery and equipment	Fixtures and fittings, tools, office equipment etc.	Total
Calculated leasing rights 01.01.2019	913,071	6,302	2,012	**921,385**
Calculated leasing obligations 01.01.2019				**-921,385**

Reconciliation of leasing obligations on transition from IAS 17 to IFRS 16

Figures in NOK 1,000	Total leasing obligations
Leasing obligation for operational leasing agreements, cf. IAS 17 (nominal values)	1,614,548
Present value of interest payments	-693,163
Leasing obligation, cf. IFRS 16 (present value)	**921,385**

NOTE 17 OTHER RECEIVABLES

Figures in NOK 1,000	Note	2018	2017
Non-current receivables			
Non-current loan to associated company		506	
Other non-current receivables		1,075	1,205
Total other non-current receivables		**1,581**	**1,205**

The Group has no receivables with a term of more than five years.

Figures in NOK 1,000	Note	2018	2017
Current receivables			
Prepaid costs*	2.3	15,001	14,920
Prepaid tax	12	4,400	0
Fair value of forward contracts	2	624	993
Other current receivables*	2.3	6,958	6,412
Total other current receivables		**26,983**	**22,325**

Figures in NOK 1,000	2018	2017
Prepayments to suppliers		
Nominal prepayments to suppliers	58,899	70,755
Provision for losses	-5,900	-6,185
Total prepayments to suppliers*	**52,999**	**64,570**

Through its distribution business, Vectura purchases goods on behalf of agents and importers. Depending on the type of agreement entered into by the agent or importer, there will be instances where Vectura buys in goods on behalf of the agent or importer and where the agent or importer bears most of the risk associated with this inventory. This type of financing of inventory for individual partners is stated at nominal value less provision for expected losses, and is presented as prepayments to suppliers.

* Items included in changes in working capital in Note 3.

NOTE 18 INVENTORIES

Figures in NOK 1,000	2018	2017
Raw materials	25,951	22,709
Goods in progress	97,521	99,629
Finished goods/goods for resale	332,902	310,111
Obsolescence provision	(15,257)	(21,690)
Total inventories	**441,117**	**410,759**

Cost of inventories in the statement of income comprises input costs for finished goods/goods for resale and production value at cost price for goods produced in-house. The total cost of inventories was NOK 1,577 million in 2018 (2017: NOK 1,409 million).

See also Note 25 for details of pledges and guarantees.

NOTE 19 CASH AND CASH EQUIVALENTS

Figures in NOK 1,000	2018	2017
Cash and cash equivalents in the Group's cash pool system	149,213	0
Other bank deposits	133,210	184,402
Cash holdings	171	13
Total cash and cash equivalents	**282,594**	**184,415**
Available drawing rights	605,850	604,982
Utilised drawing rights	0	-72,700
Available liquidity	**888,444**	**716,697**

Figures in NOK 1,000	2018	2017
Restricted bank deposits		
Restricted bank deposits	0	531
Total restricted bank deposits	**0**	**531**

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes all subsidiaries, with the exception of the companies included in the wine activities in Sweden and Finland. At the end of 2018, this Group cash pool system was managed by the parent company, Arcus ASA.

The joint overdraft limit in the Group cash pool system is TNOK 600,000. At the end of 2018, the Group has a deposit of TNOK 149,213, while at the end of 2017 it had drawn TNOK 72,700. The parent company, Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

In addition, the subsidiary group Vingruppen i Norden AB has a separate overdraft arrangement in Sweden, with a maximum credit facility of TSEK 5,000 (TNOK 4,856); and in Finland with a maximum credit facility of TEUR 100 (TNOK 994) at the end of 2018. There was no drawing on these entitlements at the end of 2018.

The Group's exposure to interest-rate risk is stated in Note 2.

Summary of bank guarantees as at 31 December:

Figures in NOK 1,000	2018	2017
Bank guarantees for tax deduction funds	30,500	30,549
Bank guarantees for customs and duty credit facilities	29,431	22,246
Other bank guarantees	76	369
Total bank guarantees	**60,007**	**53,164**

NOTE 20 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
31.12.2015		1,000,000	1.00	1,000
20.10.2016	Split 1:50	50,000,000	0.02	1,000
01.12.2016	Share issue	68,023,255	0.02	1,360
31.12.2018		**68,023,255**	**0.02**	**1,360**

20 largest shareholders as at 31.12.2018:		Number of shares	Ownership and voting rights
Canica AS		28,607,626	42.1%
Geveran Trading Co Ltd		6,750,000	9.9%
Verdipapirfondet DNB Norge (IV)		3,589,022	5.3%
Hoff SA		3,297,000	4.8%
Sundt AS		2,710,000	4.0%
Centra Invest AS		1,803,818	2.7%
Folketrygdfondet		1,750,000	2.6%
Danske Invest Norske Instit. II		1,685,398	2.5%
KLP Aksjenorge		1,326,494	2.0%
Goldman Sachs International	Nom	1,092,651	1.6%
Landkreditt utbytte		1,000,000	1.5%
RBC Investor Services Bank S.A.	Nom	949,458	1.4%
Verdipapirfondet DNB Norge Selektiv		926,616	1.4%
Danske Invest Norske Aksjer Inst		892,400	1.3%
Kommunal Landspensjonskasse		849,707	1.2%
Mustad Industrier AS		400,000	0.6%
Danske Invest Norge II		363,834	0.5%
The Bank of New York Mellon SA/NV	Nom	317,243	0.5%
Avanza Bank AB	Nom	301,551	0.4%
Janska Invest AS		260,861	0.4%
Other shareholders		9,149,576	13.5%
Total		**68,023,255**	**100.0%**

Shareholdings of the Group Management as at 31.12.2018:	Number of shares	Ownership and voting rights
Kenneth Hamnes[1]	126,499	0.2%
Sigmund Toth	19,767	0.0%
Erik Bern	20,233	0.0%
Bjørn Delbæk[2]	27,564	0.0%
Per Bjørkum	16,511	0.0%
Erlend Stefansson	54,483	0.1%
Eirik Andersen	15,180	0.0%
Svante Selling	13,562	0.0%
Christian Granlund	3,181	0.0%
Total shareholdings of the Group executive management	**296,980**	**0.4%**

1. The shareholding is held via Ekelyveien AS
2. Of the holdings, 7,500 shares are held via Oso Consulting AS

Portfolio of own shares

The Group from time to time purchases own shares on settlement of the share saving programme for the Group's employees. In 2018, the Group also purchased shares on the settlement of matching shares in Q1 2019. See further details of this in Note 9.

The portfolio of own shares is deducted from equity at the acquisition price for the Group.

The table below presents the development in the holding of own shares.

Shares owned by the Group as at 31.12.2018	Total nominal value (TNOK)	Number of shares	Book value (TNOK)	Fair value (TNOK)
Shares owned by Arcus ASA	4	193,965	8,303	7,953
Total shares owned by the Group	**4**	**193,965**	**8,303**	**7,953**

At the end of 2017, the Group had no holding of own shares.

Development in holding of own shares:

Number of shares	2018	2017
Holding of own shares, 1.1.2018	0	0
External purchase of own shares during the period	220,709	31,250
External sale of own shares during the period	0	-16
Settlement of share saving programme for employees during the period	-26,744	-31,234
Holding of own shares, 31.12.2018	**193,965**	**0**

Dividend and Group contributions

The Board of Directors proposes dividend distribution of NOK 1.66 per share for 2018 (2017: NOK 1.66 per share).

Earnings per share

Earnings per share is calculated on the basis of the profit for the year attributable to the shareholders in the parent company divided by a weighted average of the number of outstanding ordinary shares for the year, reduced for ordinary shares bought by the company and held as own shares.

The Arcus Group has an "interim retention plan" for senior executives under which externally owned shares can be diluted by issuing matching shares. To take account of this future increase in the number of shares, diluted earnings per share are also calculated, which takes account of a weighted average for the year of the estimated number of matching shares and options.

Earnings per share:	2018	2017
Profit for the year	164,417	188,222
Profit for the year attributable to non-controlling interests	5,954	6,944
Profit for the year to the owners of the parent company	**158,463**	**181,278**
Comprehensive income	179,007	264,803
Comprehensive income attributable to non-controlling interests	5,214	8,127
Comprehensive income to the owners of the parent company	**173,793**	**256,676**
Weighted average of the number of outstanding shares	68,023,255	68,023,255
Weighted dilution effect from option scheme	2,060,574	893,730
Weighted dilution effect from matching shares	291,653	368,274
Weighted average holding of own shares	-35,432	0
Weighted average of the number of outstanding shares - diluted	**70,340,050**	**69,285,259**
Earnings per share in NOK	2.33	2.66
Diluted earnings per share in NOK	2.25	2.62
Comprehensive income per share in NOK	2.55	3.77
Diluted comprehensive income per share in NOK	2.47	3.70

NOTE 21 DEBT TO FINANCIAL INSTITUTIONS

Figures in NOK 1,000	Type of financing	Currency	Interest-rate profile	Loan amount in foreign currency 31.12.2018	Loan amount in NOK 31.12.2018	Loan amount in NOK 31.12.2017
SEB	Mortgage loan	SEK	Variable	750,000	728,325	749,400
SEB	Overdraft facility	NOK	Variable	0	0	72,700
Nordea Finans	Financial leasing	NOK	Variable	166,493	166,493	183,766
Volvo Finans	Financial leasing	NOK	Variable	2,964	2,964	0
Total debt to financial institutions					**897,782**	**1,005,866**
Capitalised front-end fees					-4,824	-6,577
Book value of debt to financial institutions					**892,958**	**999,289**

Term structure	Type of financing	Currency	Maturity 2019	Maturity 2020	Maturity 2021	Maturity 2022 or later	Total
SEB	Mortgage loan	SEK	0	0	728,325	0	728,325
Nordea Finans	Financial leasing	NOK	17,667	101,915	46,911	0	166,493
Volvo Finans	Financial leasing	NOK	396	410	425	1,733	2,964
Total debt to financial institutions*			**18,063**	**102,325**	**775,661**	**1,733**	**897,782**

Reconciliation of interest-bearing debt, 31.12.2018

		Cash flow 2018		Without cash flow 2018				
Figures in NOK 1,000	Book value 31.12.2017	Raised	Redemption	Raised financial leasing	Amortization of front-end fee	Reclassification	Translation differences	Book value 31.12.2018
Non-current debt								
Mortgage loan	742,823	0	0	0	1,623	0	-20,945	723,501
Financial leasing	166,395	0	0	0	0	-15,001	0	151,394
Total non-current interest-bearing debt	**909,218**	**0**	**0**	**0**	**1,623**	**-15,001**	**-20,945**	**874,895**
Current liabilities								
Financial leasing	17,371	0	-17,370	3,061	0	15,001	0	18,063
Overdraft facility	72,700	0	-72,700	0	0	0	0	0
Total current interest-bearing debt	**90,071**	**0**	**-90,070**	**3,061**	**0**	**15,001**	**0**	**18,063**
Total interest-bearing debt	**999,289**	**0**	**-90,070**	**3,061**	**1,623**	**0**	**-20,945**	**892,958**

Reconciliation of interest-bearing debt on 31.12.2017

Figures in NOK 1,000	Book value 31.12.2016	Cash flow 2017		Without cash flow 2017				Book value 31.12.2017
		Raised	Redemption	Raised financial leasing	Amortization of front-end fee	Reclassification	Translation differences	
Non-current debt								
Mortgage loan	703,268	0	0	0	1,652	0	37,903	742,823
Financial leasing	182,987	0	0	0	0	-16,592	0	166,395
Total non-current interest-bearing debt	**886,255**	**0**	**0**	**0**	**1,652**	**-16,592**	**37,903**	**909,218**
Current liabilities								
Financial leasing	16,498	0	-15,719	0	0	16,592	0	17,371
Overdraft facility	0	72,700	0	0	0	0	0	72,700
Total current interest-bearing debt	**16,498**	**72,700**	**-15,719**	**0**	**0**	**16,592**	**0**	**90,071**
Total interest-bearing debt	**902,753**	**72,700**	**-15,719**	**0**	**1,652**	**0**	**37,903**	**999,289**

The Group has a non-current mortgage loan denominated in SEK. The non-current mortgage loan is legally placed in the subsidiary VinGruppen Sweden Holding AB in Stockholm, and falls due in its entirety at the end of 2021.

The Group has not hedged the interest rate.

On the establishment of the new loan, a front-end fee was paid, which is capitalised in the statement of financial position and written off over the duration of the loan.

* Maturity in 2019 is presented as current liabilities in the statement of financial position.
** See Note 16 concerning leasing agreements for information on the term structure of annual leasing amounts.

The agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31 December 2018 the Group was well within the required ratio.

NOTE 22 LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

At the beginning of 2018, the Group had no booked liabilities measured at fair value through profit or loss. The Group had such liabilities at the end of the year, concerning options for the purchase of non-controlling interests in conjunction with renegotiated shareholder agreements in 2018.

Options for the purchase of non-controlling interests:
The liabilities related to options for the purchase of non-controlling interests are estimated on the basis of pricing mechanisms applied in the shareholder agreements, discounted to the close of the financial year. The most important parameters in the pricing mechanisms were the development of the share values, measured as EBIT (operating profit) up until the estimated due date, multiplied by a fixed, market-based multiple. As the basis for EBIT, the underlying companies' budgets and long-term plans up until the expected due date are used. The discount rate used is NIBOR or STIBOR, with duration matched to the expected due date.

Reconciliation of earmarked liabilities, measured at fair value via profit or loss:

Figures in 1,000 (stated currency)	Minority share options	Share programme	Liability at fair value through profit or loss
Book value of liability 31.12.2016	**10,314**	**13,821**	**24,135**
Fair value on initial recognition 2017	0	0	0
Paid during the period 2017	-10,483	0	-10,483
Changes in value during the period 2017	148	-13,821	-13,673
Interest during the period 2017	21	0	21
Book value of liability 31.12.2017	**0**	**0**	**0**
Fair value on initial recognition 2018	67,874	0	67,874
Paid during the period 2018	0	0	0
Changes in value during the period 2018	2,560	0	2,560
Interest during the period 2018	104	0	104
Translation differences 2018	3,680	0	3,680
Book value of liability 31.12.2018	**74,218**	**0**	**74,218**
Of which due within 12 months, presented as current liabilities	0	0	0
Of which due after 12 months or later, presented as non-current liabilities	74,218	0	74,218

NOTE 23 OTHER PROVISIONS FOR LIABILITIES

Severance pay (long-term)
Provisions for liabilities are associated with severance pay on termination of employment. The plan covered initially 70 employees of the Group who have received severance packages in connection with the restructuring of the companies. The obligations are paid monthly up to 2019 and are presented under other non-current provisions for liabilities. The provision is calculated by discounting future payments including social security contributions at a discount rate which depends on the length of the obligation. As at 31/12/2018, the provision was associated with four remaining individuals.

Severance pay (short-term)
It has been necessary for the Group to make organisational and staffing adjustments in order to meet new requirements, including new work processes and improved profitability. During this change process, the Group offered a range of personnel policy initiatives to its employees, in order to fulfil the new framework conditions without compulsory downsizing. As at 31/12/2018, the liability associated with this was recognised at NOK 8.9 million.

All of the current liabilities are recognised in the statement of financial position under other current liabilities.

Non-current liabilities

2018 *Figures in NOK 1000*	Book value as at 31.12.2017	Reversed provision 2018	Recognised provision 2018	Translation difference 2018	Book value as at 31.12.2018
Severance pay	320	-228	0	0	92
Non-current provisions	**320**	**-228**	**0**	**0**	**92**

2017 *Figures in NOK 1000*	Book value as at 31.12.2016	Reversed provision 2017	Recognised provision 2017	Translation difference 2017	Book value as at 31.12.2017
Severance pay	627	-307	0	0	320
Non-current provisions	**627**	**-307**	**0**	**0**	**320**

Current liabilities

2018 *Figures in NOK 1000*	Book value as at 31.12.2017	Reversed provision 2018	Recognised provision 2018	Translation difference 2018	Book value as at 31.12.2018
Severance pay	2,158	-4,054	10,793	19	8,916
Other provisions	10,000	0	-10,000	0	0
Other current liabilities	**12,158**	**-4,054**	**793**	**19**	**8,916**

2017 *Figures in NOK 1000*	Book value as at 31.12.2016	Reversed provision 2017	Recognised provision 2017	Translation difference 2017	Book value as at 31.12.2017
Severance pay	2,276	-1,900	1,762	20	2,158
Other provisions	10,000	0	0	0	10,000
Other current liabilities	**12,276**	**-1,900**	**1,762**	**20**	**12,158**

NOTE 24 CURRENT LIABILITIES

Figures in NOK 1000	2018	2017
Unpaid public duties		
Excise duties, alcohol	564,611	569,034
Value added tax	344,692	339,151
Other public duties	21,149	19,820
Total unpaid public duties*	**930,452**	**928,005**

Figures in NOK 1000	2018	2017
Other current liabilities		
Current non-interest-bearing debt*	22,894	25,329
Provision for social security costs related to share-based remuneration	1,923	1,642
Provision for liabilities*, see Note 23	8,398	12,158
Other accrued costs*	152,041	158,615
Total other current liabilities	**185,256**	**197,744**

All current liabilities fall due within 12 months.

* Items included in changes in working capital in Note 3.

NOTE 25 PLEDGES AND GUARANTEES

Long-term credit financing in SEB
The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries, with the exception of the companies in the wine business in Sweden and Finland. At the end of 2018, this Group cash pool system was managed by the parent company, Arcus ASA. The parent company has pledged surety on behalf of all of its subsidiaries, which at any time is linked to outstanding drawing on this scheme.

The Group's long-term credit financing in SEB has no established pledger of security. For further information about long-term financing, see Note 21.

Surety guarantee related to financial leasing
One of the Group's subsidiaries, Arcus-Gruppen AS, has pledged a surety guarantee for leased assets (financial leasing) with Nordea Finans. At the end of 2018, the surety guarantee amounted to TNOK 166,493 for the Group's own leased operating equipment. See also Note 16 concerning leasing agreements and Note 21 concerning debt to financial institutions'.

NOTE 26 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

At the end of February 2019, four wineries announced their cancellation of the agreements with Vinunic AB, a subsidiary of Vingruppen i Norden AB. The expected annual loss of turnover is approximately SEK 108 million, with effect from the first quarter of 2019. The incident has no impact on the consolidated accounts for 2018.

Further, no significant events have occurred between the balance sheet date and the date when Arcus's consolidated accounts and company accounts were approved for publication. This applies to events that would have provided knowledge of factors that existed on the balance sheet date, and events that concern matters that have arisen after the balance sheet date. The consolidated financial statements were approved for publication by a board decision on 20 March 2019.

Alternative performance measurements

In the discussion of the reported operational results, statement of financial position and cash flows, the Group refers to a number of parameters for alternative measurement of results. These are not defined in the general accounting policies, as for IFRS.

The executive management of the Arcus Group frequently uses these parameters for alternative measurement of results and believes that, in combination with comparable parameters defined in ordinary accounting policies, these are of great benefit to investors wishing to understand the Group's business, ability to fulfil its commitments, and the ability to monitor the development of new business opportunities. These alternative measurements of results should not be seen in isolation, but, as the name indicates, are an alternative to more well-known result measurement parameters as defined in international accounting standards.

Below, the Group's parameters for alternative measurement of results are defined.

Gross profit
The Arcus Group defines gross profit as total operating revenue less cost of sales.

Figures in NOK 1000	2018	2017
Group		
Sales revenue	2,672,615	2,530,126
Other operating revenues	50,586	44,934
Total operating revenue	**2,723,201**	**2,575,060**
Cost of sales	-1,577,306	-1,408,524
Gross profit	**1,145,895**	**1,166,536**

Figures in NOK 1000	2018	2017
Spirits		
Sales revenue	762,447	763,421
Other operating revenues	157,151	149,862
Total operating revenue	**919,598**	**913,283**
Cost of sales	-447,962	-404,928
Gross profit	**471,636**	**508,355**

Figures in NOK 1000	2018	2017
Wine		
Sales revenue	1,604,715	1,522,689
Other operating revenues	20,031	18,190
Total operating revenue	**1,624,746**	**1,540,879**
Cost of sales	-1,244,346	-1,154,411
Gross profit	**380,400**	**386,469**

Figures in NOK 1000	2018	2017
Distribution		
Sales revenue	272,378	251,332
Other operating revenues	35,361	33,071
Total operating revenue	**307,739**	**284,403**
Cost of sales	0	0
Gross profit	**307,739**	**284,403**

Other income and expenses
To improve the information value of the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. Other income and expenses are presented in Note 7.

Below, the income statement is presented up to and including EBIT, with and without adjustment for other income and expenses:

	2018		2017	
Figures in NOK 1000	Adjusted	Non-adjusted	Adjusted	Non-adjusted
Sales revenue	2,672,615	2,672,615	2,530,126	2,530,126
Other operating revenues	50,586	50,586	44,934	44,934
Total operating revenue	**2,723,201**	**2,723,201**	**2,575,060**	**2,575,060**
Net profit on sale of fixed assets	365	365	30	30
Cost of sales	-1,577,306	-1,577,306	-1,408,524	-1,408,524
Salaries and other personnel costs	-426,644	-441,158	-417,412	-422,334
Other operating expenses	-409,330	-400,112	-391,699	-399,944
Share of profit from associated companies and jointly controlled entities	2,311	2,311	3,286	3,286
EBITDA	**312,597**	**307,301**	**360,741**	**347,574**
Depreciation and amortization	-50,005	-50,005	-51,581	-51,581
Impairment	0	0	0	-22,700
Operating profit (EBIT)	**262,592**	**257,296**	**309,160**	**273,293**
Other income and expenses	-5,296	0	-13,167	0
Impairment	0	0	-22,700	0
Reported operating profit (EBIT)	**257,296**	**257,296**	**273,293**	**273,293**

EBITDA and adjusted EBITDA
EBITDA is defined as operating profit before depreciation, impairment and amortization.
Adjusted EBITDA is defined as operating profit before depreciation, impairment, amortization and other income and expenses.
EBITDA margin = EBITDA/Total operating revenue
Adjusted EBITDA margin = adjusted EBITDA/Total operating revenue

Below is a reconciliation of operating profit to adjusted EBITDA:

Figures in NOK 1000	2018	2017
Group		
Operating profit	257,296	273,293
Depreciation, impairment and amortization	50,005	74,281
EBITDA	307,301	347,574
Other income and expenses	5,296	13,167
Adjusted EBITDA	**312,597**	**360,741**

Figures in NOK 1000	2018	2017
Spirits		
Operating profit	118,061	151,494
Depreciation, impairment and amortization	24,744	24,117
EBITDA	142,805	175,611
Other income and expenses	1,768	7,142
Adjusted EBITDA	**144,573**	**182,753**

Figures in NOK 1000	2018	2017
Wine		
Operating profit	167,083	184,709
Depreciation, impairment and amortization	2,586	1,794
EBITDA	169,669	186,502
Other income and expenses	11,838	5,166
Adjusted EBITDA	**181,507**	**191,668**

Figures in NOK 1000	2018	2017
Distribution		
Operating profit	1,095	660
Depreciation, impairment and amortization	11,261	12,825
EBITDA	12,356	13,485
Other income and expenses	381	647
Adjusted EBITDA	**12,737**	**14,132**

Figures in NOK 1000	2018	2017
Other		
Operating profit	-23,764	-35,690
Depreciation, impairment and amortization	6,235	7,666
EBITDA	-17,529	-28,024
Other income and expenses	-8,691	212
Adjusted EBITDA	**-26,220**	**-27,812**

Other definitions of alternative result measurement, shown in key figures

Equity ratio

Equity ratio = equity/total equity and debt

Net interest-bearing debt

Net interest-bearing debt = Debt to financial institutions + book value of capitalised front-end fee + fair value, interest-rate swap - bank deposits and other cash and cash equivalents.

Figures in NOK 1000	2018	2017
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	874,895	909,218
Current interest-bearing debt to credit institutions	18,063	90,071
Book value of capitalised front-end fee	4,824	6,577
Bank deposits and other cash and cash equivalents	-282,594	-184,415
Net interest-bearing debt	**615,188**	**821,451**

Organic growth

Organic growth in income is the Group or segment's total operating revenue, adjusted for translation effects and structural changes.

Figures in NOK 1000	2018	2017
Group		
Sales revenue	2,672,615	2,530,126
Other operating revenues	50,586	44,934
Total operating revenue	**2,723,201**	**2,575,060**
Currency effects[1]	0	-20,748
Structural changes[2]	-67,991	0
Calculation basis, organic growth	**2,655,210**	**2,554,312**

1. Currency effects are calculated by translation of income in other currencies than NOK in 2017 at the same average exchange rate as for translation of income in 2018.
2. The structural changes in 2018 primarily comprise adjustment for income from the acquired brands, Hot n'Sweet and Vanlig, and the acquisition of BevCo. They also include adjustment for effects related to the reclassification of freight costs from the reduction of sales revenue in 2017 to cost of sales in 2018, as a consequence of the introduction of IFRS 15 (see also Note 4).

Figures in NOK 1000	2018	2017
Spirits		
Sales revenue	762,447	763,421
Other operating revenue	157,151	149,862
Total operating revenue	**919,598**	**913,283**
Currency effects[1]	0	2,871
Structural changes[2]	-29,891	0
Calculation basis, organic growth	**889,707**	**916,154**

1. Currency effects are calculated by translation of income in other currencies than NOK in 2017 at the same average exchange rate as for translation of income in 2018.
2. The structural changes in 2018 primarily comprise adjustment for income from the acquired brands, Hot n'Sweet and Vanlig, and the acquisition of BevCo.

Figures in NOK 1000	2018	2017
Wine		
Sales revenue	1,604,715	1,522,689
Other operating revenue	20,031	18,190
Total operating revenue	**1,624,746**	**1,540,879**
Currency effects[1]	0	-23,904
Structural changes	3,399	0
Calculation basis, organic growth	**1,628,145**	**1,516,975**

1. Currency effects are calculated by translation of income in other currencies than NOK in 2017 at the same average exchange rate as for translation of income in 2018.

Figures in NOK 1000	2018	2017
Distribution		
Sales revenue	272,378	251,332
Other operating revenues	35,361	33,071
Total operating revenue	**307,739**	**284,403**
Currency effects	0	0
Structural changes	0	0
Calculation basis, organic growth	**307,739**	**284,403**

PARENT COMPANY ACCOUNTS

Statement of income 01.01. - 31.12.

Figures in NOK 1,000	Note	2018	2017
OPERATING REVENUE AND EXPENSES			
Payroll costs	1	12,003	10,244
Other operating expenses		3,998	4,540
Total operating expenses		**16,001**	**14,784**
Operating profit		**-16,001**	**-14,784**
FINANCIAL INCOME AND EXPENSES			
Income from investment in subsidiary	8	106,362	65,312
Other interest income		8,377	3,755
Other financial income		6,699	15,836
Other interest costs		-13,241	-10,107
Other financial costs		-13,009	-11,882
Net financial profit/loss		**95,188**	**62,914**
PROFIT BEFORE TAX		79,187	48,130
Tax	2	23,738	17,111
RESULT FOR THE YEAR		55,449	31,019
Transferred from/to other equity		55,449	31,019
Total transfers		**55,449**	**31,019**

Statement of financial position as at 31 December

Figures in NOK 1,000	Note	2018	2017
ASSETS			
Fixed assets			
Intangible assets			
Deferred tax assets	2	102,381	124,137
Total intangible assets		**102,381**	**124,137**
Financial assets			
Investment in subsidiary	3	1,438,317	1,438,317
Loans to Group companies		0	0
Total financial assets		**1,438,317**	**1,438,317**
Total fixed assets		**1,540,698**	**1,562,454**
Current assets			
Receivables			
Trade receivables from companies in the same Group	8	1,114	22
Group contributions from Group companies	8	106,362	65,312
Current receivables from Group companies	8	13,558	8,326
Other receivables		193	274
Total receivables		**121,227**	**73,934**
Cash and cash equivalents	9	149,213	0
Total current assets		**270,440**	**73,934**
TOTAL ASSETS		**1,811,138**	**1,636,388**

Figures in NOK 1,000	Note	2018	2017
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	4,5	1,356	1,360
Share premium	5	719,280	719,280
Total paid-in equity		**720,636**	**720,640**
Retained earnings			
Other equity	5	-58,956	0
Total retained earnings		**-58,956**	**0**
Total equity		**661,680**	**720,640**
Liabilities			
Provisions			
Pension obligations	6	1,029	757
Total provisions		**1,029**	**757**
Other non-current liabilities			
Debt to financial institutions	7	-2,275	-3,055
Total other non-current liabilities		**-2,275**	**-3,055**
Current liabilities			
Debt to financial institutions	7	0	72,700
Trade payables		121	106
Trade payables to Group companies	8	155	3
Tax payable	2	839	0
Other current liabilities		6,204	6,423
Other current liabilities payable to Group companies	8	686	0
Allocated dividend	5	112,919	112,920
Intragroup balance in Group cash pool system	8,9	1,029,780	725,894
Total current liabilities		**1,150,704**	**918,046**
Total liabilities		**1,149,458**	**915,748**
TOTAL EQUITY AND LIABILITIES		**1,811,138**	**1,636,388**

Gjelleråsen, 20 March 2019

Michael Holm Johansen
Chairman of the Board

Stein Erik Hagen

Hanne Refsholt

Eilif Due

Trond Berger

Leena Maria Saarinen

Erik Hagen

Konstanse M. Kjøle

Ann Therese Jacobsen

Ann-Beth Freuchen

Kenneth Hamnes
Group CEO

Statement of cash flows 01.01. – 31.12.

Figures in NOK 1,000	**2018**	**2017**
CASH FLOWS FROM OPERATIONS		
Pre-tax profit	79,187	48,130
Tax payable	-1,146	0
Pension costs without cash effect	362	284
Costs related to share-based remuneration without cash effect	7,603	7,898
Value changes without cash effect	0	-13,821
Financial expenses without cash effect	780	780
Change in trade receivables	-1,092	-22
Change in trade payables	167	-38,948
Change in other current assets and other liabilities	-46,612	-114,965
Net cash flows from operational activities	**39,249**	**-110,664**
CASH FLOWS FROM FINANCING ACTIVITIES		
Pension obligation taken over from subsidiary	0	348
Purchase of own shares	-8,303	0
Proceeds from debt to financial institutions	0	72,700
Redemption of debt to financial institutions	-72,700	0
Change in intragroup balance in Group cash pool system	303,886	36,879
Payments of dividends contributions	-112,919	-99,994
Net cash flow from financing activities	**109,964**	**9,933**
Net change in cash and cash equivalents	**149,213**	**-100,731**
Holdings of cash and cash equivalents as at 01.01.	0	100,731
Holdings of cash and cash equivalents as at 31.12.	**149,213**	**0**

Accounting policies

The annual accounts have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting policies.

The company was founded on 5 November 2004, and listed on the Oslo Stock Exchange on 1 December 2016.

The purpose of the company is to operate the import, export, production, storage and distribution of alcoholic beverages and other goods, and other activities related to this business, as well as the ownership of participations in other companies that conduct such business.

CONSOLIDATED FINANCIAL STATEMENTS

Arcus ASA owns 100 per cent of the shares in Arcus-Gruppen AS and Vectura AS.

GENERAL RULE FOR VALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES

Assets intended for continuing ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables due for payment within one year are classified as current assets. The classification of current and non-current liabilities is based on similar criteria.

Fixed assets are valued at acquisition cost, but written down to fair value if the impairment is not expected to be temporary. Fixed assets with a limited economic life are depreciated according to a reasonable depreciation plan.

Current assets are valued at the lower of cost or fair value. Current and non-current liabilities are capitalised at the nominal amounts received at the time of establishment. Borrowing costs are capitalised together with the loan and amortised over the term of the loan. The first year's instalment is reclassified as a current liability.

Certain items are valued according to different principles, as explained below.

SHARES IN SUBSIDIARIES

Shares in subsidiaries are valued using the cost method. The transaction costs are added to the purchase price of shares in subsidiaries. Shares are written down to fair value if this is lower than the recognised value.

Group contributions are recognised in the same year as they are allocated in the subsidiary. If dividends/other distributions exceed the share of retained profit after the acquisition, the surplus represents repayment of invested capital and the distributions are deducted from the value of the investment in the statement of financial position.

RECEIVABLES

Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Provisions for losses are made on the basis of an individual assessment of each receivable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits and other means of payment with a due date less than three months from the acquisition date.

BORROWING

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Transaction costs (front-end fees) are capitalised in the statement of financial position and depreciated over the term of the loan.

Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year.

PENSION

Pension costs comprise the change in actuarially calculated pension obligations and costs related to defined contribution pension plans. For actuarially calculated pension obligations the costs comprise the period's pension-accrual based assumptions concerning future salary increases and interest costs for the calculated obligation. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations) are recognised against equity.

TAXES

Tax expenses are matched with profit/loss before tax. Tax costs comprise tax payable (tax on the year's directly taxable income) and changes in net deferred tax. Tax costs are allocated to ordinary profit/loss and profit/loss from extraordinary items in accordance with the taxation basis. Deferred tax and deferred tax assets are presented net in the statement of financial position.

Tax assets are only capitalised if it can be shown to be probable that they can be utilised via future taxable income.

STATEMENT OF CASH FLOWS

The indirect method is used in the preparation of the statement of cash flows. Cash and cash equivalents in the statement of financial position are defined as holdings of cash and cash equivalents in the statement of cash flows.

All figures in the financial statements are presented in NOK 1,000 unless otherwise indicated.

Notes

NOTE 1 PAYROLL COSTS

	2018	2017
Salaries including holiday pay	7,229	7,408
Social security costs	1,078	1,097
Pension costs including social security costs	553	464
Other personnel costs	3,143	1,275
Total salaries and other personnel costs	**12,003**	**10,244**
Average number of employees	2	2

	2018		2017	
Benefits to executive personnel	Group CEO	Board of Directors	Group CEO	Board of Directors
Salary	3,118	2,546	3,031	2,444
Bonus earned from the current year	0	0	324	0
Pension costs	332	0	386	0
Other remuneration	234	0	227	0

The company had two employees during the year.

The Group CEO also has an ordinary bonus agreement which, on specific terms, will release payment of up to five monthly salaries. He is also included in a temporary share programme (matching shares) which was established in conjunction with the IPO in 2016, and an option programme under which he was allocated share options in both 2017 and 2018. His holdings in these incentive schemes are specified in the Group's Note 9.

The Group CEO has an ordinary occupational pension plan with Storebrand, which entails 5 per cent pension contributions for salaries of 0 to 7.1G and 11 per cent for salaries from 7.1 to 12G. He also has a supplementary pension agreement that gives pension earnings of 15 per cent of salaries above 12G. These pension earnings are capitalised annually in the company's statement of financial position, where the return is based on the return from the Storebrand Balansert pension fund.

If the CEO gives notice of termination, he is subject to six months' notice of termination. If notice of termination is given by the Group, the Group CEO will be entitled to 12 months' severance pay, and during this period will not be able to take employment in competing companies.

No loans or surety are granted for either the Group CEO or members of the Board of Directors.

The Group Management's holdings of ordinary shares in Arcus ASA are stated in Note 20 for the Group.

Share-based incentive schemes
Matching shares:
In connection with the IPO for the parent company, Arcus ASA, in 2016, some key persons were offered matching shares, whereby they are entitled to receive one matching share for each share acquired under the IPO. These matching shares are granted to recipients in 2019 after the publication of the quarterly report for Q4 2018, if the person in question is still employed at this time.

If the listed share price on the redemption date exceeds two times the listed price on the allocation date, the number of matching shares will be reduced, so that the total value of the matching shares allocated does not exceed twice the value on the allocation date.

I Arcus ASA, two persons received this offer, including the general manager. Together they are entitled to allocation of 61,867 shares in Arcus ASA if the employment criterion is fulfilled at the time of allocation (of which 42,100 for the general manager).

This programme entailed costs of TNOK 1,318 in 2018.

Options:
In 2017, a new option programme for senior executives in the Group was adopted, with annual allocation of new options. Two persons at Arcus ASA are included in this programme, including the general manager.

The options' vesting period will be three years from the allocation data, where the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

This programme entailed costs of TNOK 1,087 in 2018. Below, the number of outstanding options at the end of the year is presented:

Number of options	2018	2017
Outstanding options at the beginning of the year	290,199	0
Allocated options during the year	368,560	290,199
Outstanding options at the end of the year*	**658,759**	**290,199**

* Of which 442,883 options outstanding to the Group CEO.

Auditors' fees	2018	2017
Statutory audit	285	328
Other financial audit	91	88
Other non-audit services	36	0
Total auditors' fees	**412**	**416**

The amounts are stated in TNOK and exclude VAT.

NOTE 2 TAX

Tax for the year is calculated as follows:	2018	2017
Tax payable	839	0
Change in deferred tax	22,852	17,111
Tax effect related to previous years	47	0
Tax	**23,738**	**17,111**
Reconciliation from nominal to actual tax rates:		
Profit before tax	79,187	48,130
Expected income tax at a nominal tax rate of 23 per cent (24 per cent in 2017)	18,213	11,551
Tax effect of the following items:		
Non-deductible costs	803	276
Change due to a change in tax rate	4,654	5,397
Tax on costs booked directly to equity	21	-113
Insufficient/surplus provision in previous years	47	0
Tax	**23,738**	**17,111**
Effective tax rate	30.0%	35.6%

Specification of temporary differences and deficit carried forward:

	2018		2017	
	Asset	Liability	Asset	Liability
Non-current debt	0	2,275	0	3,055
Pension obligations	1,029	0	757	0
Other liabilities	0	932	1,271	0
Deficit carried forward	467,548	0	540,754	0
Total	**468,577**	**3,207**	**542,782**	**3,055**
Basis for deferred tax asset/liability	465,370		539,727	
Net deferred tax asset in the statement of financial position*	**102,381**		**124,137**	

At the end of the year, the company had NOK 102.9 million in capitalised deferred tax assets associated with the deficit to be carried forward. Based on the Group's strategic plans and current long-term plans for companies in the tax group, the Board of Directors and executive management expect that the deferred tax assets can be utilised.

At the end of 2018, deferred tax was calculated at 22 per cent as a result of government tax changes as from 2019. At the end of 2017, deferred tax was calculated at 23 per cent.

NOTE 3 SUBSIDIARIES

Subsidiaries of Arcus ASA

Company	Acquisition date	Registered office	Voting and ownership	Currency	Nominal share capital
Arcus-Gruppen AS	10.10.2005	Nittedal	100%	NOK	276,000
Vectura AS	30/09/2013	Nittedal	100%	NOK	14,000

Company	Cost price (NOK)	Book value as at 31.12	Equity according to last annual financial state-ments (NOK)	Profit for the year 2018 (NOK)
Arcus-Gruppen AS	1,886,607	1,362,217	1,992,549	115,933
Vectura AS	76,100	76,100	23,043	-3,130
Total subsidiaries	**1,962,707**	**1,438,317**	**2,015,592**	**112,803**

NOTE 4 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
31.12.2015		1,000,000	1.00	1,000
20.10.2016	Split 1:50	50,000,000	0.02	1,000
01.12.2016	Share issue	68,023,255	0.02	1,360
31.12.2018		**68,023,255**	**0.02**	**1,360**

20 largest shareholders as at 31.12.2018:	Number of shares	Ownership and voting rights
Canica AS	28,607,626	42.1%
Geveran Trading Co Ltd	6,750,000	9.9%
Verdipapirfondet DNB Norge (IV)	3,589,022	5.3%
Hoff SA	3,297,000	4.8%
Sundt AS	2,710,000	4.0%
Centra Invest AS	1,803,818	2.7%
Folketrygdfondet	1,750,000	2.6%
Danske Invest Norske Instit. II	1,685,398	2.5%
KLP Aksjenorge	1,326,494	2.0%
Goldman Sachs International	1,092,651	1.6%
Landkreditt utbytte	1,000,000	1.5%
RBC Investor Services Bank S.A.	949,458	1.4%
Verdipapirfondet DNB Norge Selektiv	926,616	1.4%
Danske Invest Norske Aksjer Inst	892,400	1.3%
Kommunal Landspensjonskasse	849,707	1.2%
Mustad Industrier AS	400,000	0.6%
Danske Invest Norge II	363,834	0.5%
The Bank of New York Mellon SA/NV	317,243	0.5%
Avanza Bank AB	301,551	0.4%
Janska Invest AS	260,861	0.4%
Other shareholders	9,149,576	13.5%
Total	68,023,255	100.0%

Dividend

The Board of Directors proposed dividend distribution of NOK 1.66 per share for 2018 (2017: NOK 1.66 per share).

NOTE 5 EQUITY

	Share capital	Share premium	Other equity	Total
Equity as at 01.01	1,360	719,280	0	720,640
Profit for the year	0	0	55,449	55,449
Purchase of own shares	-4	0	-8,299	-8,303
Share-based payment	0	0	6,723	6,723
Estimate deviations, pensions	0	0	90	90
Allocated dividend	0	0	-112,919	-112,919
Equity as at 31.12	**1,356**	**719,280**	**-58,956**	**661,680**

NOTE 6 PENSION OBLIGATIONS AND COSTS

The company is obliged to have an occupational pension scheme under the Norwegian Act on mandatory occupational pension schemes, and has a pension scheme which fulfils the requirements under this Act.

Defined contribution pension

Arcus-Gruppen's ordinary pension plan for all other employees is a defined contribution pension plan with Storebrand. The contribution rate is 5 per cent of salary in the bracket from 0 to 7.1 times the National Insurance basic amount (G), and 11 per cent of salary in the bracket from 7.1 to 12 times the National Insurance basic amount (G). In addition, there is a private disability plan with a 66 per cent benefit level, without free policy accumulation. The child and dependent supplement to Arcus' group life plan is a replacement for the previous spouse and child pension.

The costs associated with the defined contribution pension plan are related to the current premium invoices from the insurance company with which Arcus-Gruppen has signed a defined contribution pension agreement. The current defined contribution pensions and disability pensions for employees in the defined contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined contribution plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised obligation related to this was NOK 0.1 million at the end of 2018.

Unfunded pension arrangement

The Group CEO also has an unfunded pension arrangement in which the pension entitlement earned is 15 per cent of the salary above 12G. Ongoing provision is made for this obligation in the company's statement of financial position and the annual interest accrual is the same as for the Storebrand Balansert Pension. At the end of 2018, this obligation was recognised at NOK 1.0 million.

General assumptions

The Company applies a discount rate equivalent to the covered bond interest rate to its pension commitments. This is in line with the recommendations of the Norwegian Accounting Standards Board. The pension assumptions made by the company are consistent with the recommendations of the Accounting Standards Board from September 2018.

Figures in NOK 1,000

Pension costs	2018	2017
Present value of pension earnings for the year	277	213
Interest cost of pension obligations	40	36
Accrued social security contributions	45	35
Net pension costs after social security contributions	**362**	**284**
Defined contribution pension plan		
Recognised contributions excluding social security contributions	191	180
Net pension obligations:		
Estimated accrued obligations, funded pension plans	0	0
Estimated value of pension assets	0	0
Net estimated funded pension obligations (+)/assets (-)	0	0
Estimated accrued obligations, non-funded pension plans	1,029	757
Net pension assets/liabilities recognised in the statement of financial position	**1,029**	**757**
Changes in obligations:		
Net pension obligations 01.01	757	0
Pension costs, continued operations	362	284
Paid in via operations after taking over a liability from a subsidiary	0	348
Estimate deviations recognised directly in equity (IAS19R)	-90	125
Net pension obligations 31.12.	**1,029**	**757**
Financial assumptions:		
Discount rate	2.60%	2.30%
Expected salary adjustment	2.75%	2.50%
Expected pension increase	1.75%	1.50%
Expected adjustment of the National Insurance basic amount (G)	2.50%	2.25%
Expected return on pension assets	2.60%	2.30%
Actuarial and demographic assumptions		
Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

NOTE 7 LOANS, PLEDGES AND GUARANTEES ETC.

Debt to financial institutions				2018	2017
Figures in NOK 1,000	Currency	Interest rate profile	Loan amount in foreign currency	Loan amount in NOK	Loan amount in NOK
Overdraft facility, SEB	NOK	Variable	0	0	72,700
Total debt to financial institutions				**0**	**72,700**
Capitalised loan costs				-2,275	-3,055
Book value as at 31.12				**-2,275**	**69,645**

Term structure	Maturity 2019	Maturity 2020-2022	Maturity after 2022	Total
SEB	0	0	0	0
Total debt to financial institutions	**0**	**0**	**0**	**0**

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries with the exception of the companies in the wine business in Sweden and Finland. At the end of 2018, this Group cash pool system was managed by Arcus ASA. Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

The capitalised front-end fee with a book value of TNOK 2,275 relates to the front-end fee for the cash pool scheme. The outstanding value is here amortised over the duration of the loan, until the end of 2021.

The Group has a long-term financing agreement with SEB, whereby the loan is formally for TSEK 750 and is booked in one of the subsidiaries in Sweden, VinGruppen Sweden Holding AB. The financing agreement does not include a pledger of security.

The company has no non-current debt with terms exceeding five years.

The agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31 December 2018 the Group was well within the required ratio.

NOTE 8 INTRAGROUP RECEIVABLES AND LIABILITIES

Receivables	2018	2017
Claims on Group contributions from Arcus-Gruppen AS	106,362	65,312
Trade receivables from companies in the same Group	1,114	22
Other current receivables from Group companies	13,558	8,326
Total	**121,034**	**73,660**

Liabilities	2018	2017
Trade payables to Group companies	155	3
Other current liabilities payable to Group companies	686	0
Intragroup balance in Group cash pool system	1,029,780	725,894
Total	**1,030,621**	**725,897**

The company has no consolidated assets or liabilities that will fall due more than five years after the close of the financial year.

NOTE 9 CASH AND CASH EQUIVALENTS

The company has no restricted bank deposits, but has a bank guarantee for a tax payment of TNOK 2,500.

The company administrates the Group cash pool scheme for the Group and the scheme includes most of the Group's subsidiaries. The Swedish and Finnish wine activities, and the new subsidiary, Det Danske Spiritus Kompagni A/S, are not included in the scheme.

Net deposits or drawings by the subsidiaries are presented as intragroup balances with Arcus ASA. The joint overdraft limit in the Group cash pool system is TNOK 600,000.

At year-end, the Group had a total deposit of TNOK 149,213 from the scheme, which is presented as a bank deposit for Arcus ASA, compared to TNOK 72,700 at the end of 2017, presented as debt to financial institutions.

As at 31 December 2018, Arcus ASA has drawings of TNOK 1,029,780 in the Group cash pool system, compared to drawings of TNOK 725,894 at the end of 2017.

NOTE 10 FINANCIAL MARKET RISK

Financial risk
The company has individual financial derivatives for hedging purposes. The company does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes.

The risk management procedures are adopted by the Board of Directors and undertaken by the administration in cooperation with the individual business areas. The most important financial risks to which the company is exposed are associated with interest-rate risk, liquidity risk and foreign currency risk. The company's management continuously assesses how these are to be handled.

Interest-rate risk
The company is exposed to interest-rate risk by placing liquid assets and drawing in the Group cash pool system. As at 31 December 2018, the company had variable interest rates for all of its interest-bearing deposits and liabilities.

Liquidity risk
Liquidity risk is the risk that the company will not be in a position to service its financial liabilities as they fall due. The company must at all times have sufficient liquidity to fulfil its obligations. It is also a goal to minimise the company's excess liquidity. The company will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance.

As far as possible, the company wishes to have flexibility for its liquid assets related to day-to-day operations. This is achieved through a Group cash pool system with a drawing facility that as of 31 December 2018 is managed by Arcus ASA.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used.

Currency risk
Since the company operates international activities, there is some exposure to currency risk. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions. The accounting treatment of financial derivatives is described under "Accounting Policies".

The company makes substantial purchases in foreign currency (mainly EUR), while the functional currency is NOK.

Receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate. Currency exposure is hedged mainly by using forward contracts.

During the year, to a certain degree purchase and sale of goods in foreign currency are hedged, and the forward exchange rate achieved in the market is used as the transaction rate. As a general rule, the currency exposure is hedged three times a year, for four-month terms.

As at 31 December 2018, the company had no forward contracts (asset hedging) to hedge items in the statement of financial position and orders already placed.

NOTE 11 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

At the end of February 2019, four wineries announced their cancellation of the agreements with Vinunic AB, a subsidiary of Vingruppen i Norden AB. The expected annual loss of turnover is approximately SEK 108 million, with effect from the first quarter of 2019. The incident has no impact on the consolidated accounts or the accounts for the mother company for 2018.

Further, no significant events have occurred between the balance sheet date and the date when Arcus's consolidated accounts and company accounts were approved for publication. This applies to events that would have provided knowledge of factors that existed on the balance sheet date, and events that concern matters that have arisen after the balance sheet date. The consolidated financial statements were approved for publication by a board decision on 20 March 2019.

DECLARATION

The Board of Directors and the General Manager confirm that, to the best of their knowledge, the annual financial statements have been prepared in accordance with current accounting standards and that the information presented in the financial statements provides a true and fair view of the assets, debt, financial position and overall results of the company and the Group. The Board of Directors and the General Manager also confirm that, to the best of their knowledge, the Annual Report presents a true and fair view of the development, results and position of the company and the Group, and a good description of the most central risk and uncertainty factors faced by the company.

Gjelleråsen, 20 March 2019

Michael Holm Johansen Chairman of the Board	Stein Erik Hagen	Hanne Refsholt	Eilif Due	Trond Berger
Leena Maria Saarinen	Erik Hagen	Konstanse M. Kjøle	Ann Therese Jacobsen	Ann-Beth Freuchen
Kenneth Hamnes Group CEO				

AUDITOR'S REPORT

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Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Arcus ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arcus ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the balance sheet as at 31 December 2018, statement of income, statements of total comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

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Impairment assessments – trade marks and goodwill

As at 31 December 2018, the Arcus Group had trademarks and goodwill recognized in the balance sheet, representing approx. 42% of the total capital, mainly related to the spirit segment. Uncertainty related to earnings and profitability increases the risk of loss due to impairment. Due to the extent of judgmental assessments applied in management's models for impairment considerations, together with the significant value in the balance sheet, the impairment assessments of trade marks and goodwill are considered a key audit matter.

Our audit of the Group's impairment assessments has included review and testing of the impairment models, assessment of cash-generating units, control of mathematical accuracy of models together with testing and evaluating the assumptions management used as a basis in the calculations. We also reviewed the design of management's internal controls related to the impairment assessments. In addition, we considered management's assumption on future cashflow forecasts by looking at the historical accuracy in management's budgets and prognoses to the Company's actual results. We compared key assumptions to market information where available. We also assessed discount rates by comparing the assumptions for the calculation with external data like expected inflation, debt ratio, loan interest, risk premium and beta values for comparable companies. In addition, we have reviewed and carried out sensitivity analyses to evaluate how sensitive the model is for changes in the most important underlying assumptions.

We refer to note 15 in the financial statements and to information about intangible assets and significant accounting estimates and judgmental considerations in the Group's accounting principles.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

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aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

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Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 20 March 2019

ERNST & YOUNG AS

Kjetil Rimstad
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Independent auditor's report - Arcus ASA

A member firm of Ernst & Young Global Limited

Appendix 4

Auxiliary Trade Names

In connection with the execution of the Merger, the following auxiliary trade names are registered for the Recipient Company:

- Altia, through which the Recipient Company will carry out the manufacture, marketing and sale of starch, ethanol-based products and alcoholic beverages.

- Arcus, through which the Recipient Company will carry out sale and marketing of alcoholic beverages.