Merrild Kaffe ApS

Erritsø Møllebanke 3, 7000 Fredericia

CVR no. 36 47 39 40

Annual report 2018

Approved at the Company's annual general meeting on 31 May 2019

Chairman:

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Building a better
working world

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Merrild Kaffe ApS for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Fredericia, 31 May 2019
Executive Board:

Peter Henrik Falk CEO	Søren Svinding CFO

Board of Directors:

Mauro Mantovani Chairman	Peter Henrik Falk	Søren Svinding

Independent auditor's report

To the shareholder of Merrild Kaffe ApS

Opinion

We have audited the financial statements of Merrild Kaffe ApS for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act 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 in preparing the financial statements 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 as to 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 and the additional requirements applicable in Denmark 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 conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement 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.

Independent auditor's report

- 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 in preparing the financial statements 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 contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Odense, 31 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Søren Smedegaard Hvid	Torben Ahle Pedersen
State Authorised Public Accountant	State Authorised Public Accountant
mne31450	mne16611

Management's review

Company details

Name	Merrild Kaffe ApS
Address, Postal code, City	Erritsø Møllebanke 3, 7000 Fredericia
CVR no.	36 47 39 40
Established	22 December 2014
Registered office	Fredericia
Financial year	1 January - 31 December
Website	www.merrild.dk
Telephone	+45 63 10 31 03
Board of Directors	Mauro Mantovani, Chairman Peter Henrik Falk Søren Svinding
Executive Board	Peter Henrik Falk, CEO Søren Svinding, CFO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Englandsgade 25, P.O. Box 200, 5100 Odense C, Denmark

Management's review

Financial highlights

DKK'000	2018	2017	2016	2015
Key figures				
Revenue	364,925	366,007	338,677	149,081
Gross margin	46,080	48,562	48,207	10,545
Operating profit/loss	5,946	7,448	8,579	-2,433
Net financials	-83	-282	-176	-482
Profit/loss for the year	**4,566**	**5,596**	**6,333**	**-2,209**
Fixed assets	74,856	78,424	81,924	81,042
Total assets	**168,187**	**220,700**	**192,854**	**208,406**
Equity	**106,385**	**101,819**	**96,223**	**88,309**
Financial ratios				
Current ratio	161.0%	122.3%	116.0%	128.7%
Equity ratio	63.3%	46.1%	49.9%	42.4%
Return on equity	4.4%	5.7%	6.9%	-2.5%
Average number of employees	**58**	**54**	**48**	**38**

Financial ratios are calculated in accordance with the Danish Finance Society's recommendations on the calculation of the financial ratios. For terms and definitions, please see the accounting policies.

Management's review

Business review

The main activity in the Parent Company, Merrild Kaffe ApS, is sale of coffee, coffee pads and instant coffee to the retail consumer market as well as coffee and machinery to the professional market. The Company's products are sold primarily in Denmark, the North Atlantic as well as in the Baltic countries.

Strategy

It is the Company's strategy to deliver quality products within the Company's business areas. It is the strategy on an ongoing basis to support the qualitative development of the total market and to gain market share at the same time as the earnings capacity is maintained.

Financial review

Development in the year

The income statement of the Company for 2018 shows a profit of DKK'000 4,566, and at 31 December 2018 the balance sheet of the Company shows equity of DKK'000 106,385. The management considers the result satisfying.

Subsidiaries and associated companies

Merrild Kaffe ApS is 100 % owner of the company Merrild Baltic SIA.

The income statement of Merrild Baltic SIA for 2018 shows a profit of €'000 216 equals DKK'000 1,608 and at 31 December 2018 the balance sheet of the Company shows equity of €'000 1,271 equals DKK'000 9,462.

Merrild Baltic SIA is working as Merrild Kaffe Aps's agent in the Baltics and assists the Merrild Kaffe ApS with sales to the Baltic countries.

Outlook

The expected development

Despite the fact that the Filter coffee market is showing a decline in volume, Merrild Kaffe ApS expect an increase in its activity, as well as earnings, based on continued growth and further expansion in other categories and brands.

Special risks

Operating risks

There seem to be no material operating risks. The Company purchases the main part of its products from group companies which ensures a stable supply.

Market risks

The retail industry is characterized by few, but large, chains that represent a significant share of the Company's turnover. In the same way, the Company has a significant market share in competition with correspondingly larger providers of comparable products. To strengthen the Company's market position, significant marketing investments and further development of brands and business concepts have taken place.

Financial risks

The Management considers the Company's financiel resources to be sufficient.

Currency risks

TThe Company has Domestic sales of goods as well as exports. These transactions are, however, as a general rule, effectuated primarily in DKK or EURO, why the currency risk is assessed to be limited. If deemed necessary, currency forward contracts for the hedging of future cash flows in foreign currencies are used.

Management's review

Interest rate risks

The Company has only deposits with normal market interest conditions and thus has only minor risk related to interest rate level.
The Company's shareholders have chosen not to enter into interest rate transactions to hedge interest rate risks, as in the case of a group internal balance.

Credit risks

The Company's policy for the assumption of credit risks implies that all major customers and other business partner's continuous credit is assessed. Mentioned policy minimizes/eliminates the risk.

Knowledge resources

Intellectual capital

Since the Company operates in a highly competitive market for all of its products, it is essential constantly to recruit and retain employees with a high level of expertise in sales and marketing.

The company through continuous education and training initiatives secures that the needed high knowledge level is maintained.

The Company's support functions must have the professional skills and demonstrate the stability that ensures retention of skills and the ability to act as a support function. This is also ensured through the company's training and personnel policies as well as knowledge sharing internally and within the Group companies.

Research and development activities

R&D activities primarily are managed by central group functions in the parent company, but the company also holds costs for local research and product development.

Statutory CSR report

Statutory statement on CSR in accordance with sec. 99 of the Danish FinancialStatements Act.

Business model

The main activities of Merrild Kaffe consist of purchasing and selling coffee and tea to retail stores and professionals under the Merrild and Lavazza brands. Additionally, the company also sells coffee machinery to the professional market. Merrild Kaffe's main geographic markets are Denmark, the North Atlantic and the Baltic countries.

Merrild Kaffe values ethical behavior and cooperates with suppliers, entrepreneurs, partners and distributors to ensure responsible business practices throughout the value chain. The company recogniz-es the social and environmental risks associated with coffee production and focuses its CSR-efforts on three main strategic areas in the value-chain:

- The source
- The company
- The products

Merrild Kaffe seeks to minimize the lifecycle impact of the final products as well as increase transparency for customers. By working with CSR across the value chain, Merrild Kaffe and its parent company Luigi Lavazza S.p.A. ensures that all significant risks are identified, considered and improved wherever possible. The company conducts lifecycle assessments of its products - from farm to cup. These assessments are then used to identify areas for potential improvement concerning both environmental and climate impact. The results of the most recent assessments show that the most significant impact happens during the stages of farming and brewing.

Management's review

Environment and Climate

Policy:

Merrild Kaffe wants to make coffee production more resilient to climate change and minimize the environmental impacts of coffee production. This is done through cooperation with small-scale farmers through the Lavazza foundation, to jointly face climate change effects, promote good agricultural practices and support a sustainable social development. This is also reflected in the company's strategy to pursue growth within organic or other sustainability certified coffee products.

Risks, actions and results:

Coffee is a product of the land, and like land, it is threatened by the ongoing changes in our climate. The current climatic instability is menacing the supply of high-quality coffee. If we fail to take action to stem this phenomenon, millions of hectares risk vanishing in the span of a few decades, and millions of coffee growers risk losing their livelihoods, and Merrild Kaffe will not be able to access the high-quality coffee, which we rely on for our products. This risk is further accelerated by unsustainable farming practices, such as excessive use of pesticides.

To mitigate this risk, Merrild works with several projects through the parent company Luigi Lavazza S.p.A. and the Lavazza foundation. The projects supported by the Lavazza Foundation are primarily intended to increase coffee yields and quality, while also promoting entrepreneurship among coffee growers and improving their living conditions. The main tools used to achieve these goals are:

- The spread of good agricultural practices that foster coffee quality and respect for the environment, support reforestation, and spread farming techniques that enable growers to respond effectively to the effects of climate change.
- Support for coffee growers in building and managing their own organizations, like associations, cooperatives and companies.

In 2018, Merrild participated in programs through the Lavazza foundation in Guatemala, Dominical Republic and Haiti, Cuba, Colombia, Ecuador, Peru and Brazil. The projects have generally shown an increase in new coffee plant varieties, coffee productivity per hectare, and in household income.

Labor conditions

Policy:

Merrild Kaffe wants to provide a good working environment, where employees thrive.

Risks, actions and results

Merrild Kaffe only has a sales office in Denmark, and the most prominent risk for Merrild Kaffe related to labor conditions is that of not having a healthy physical and mental work environment.

To mitigate this risk, Merrild conducts an annual employee satisfaction survey. In 2018, the results showed an average score of 4.3/5 of general job satisfaction, which Merrild deems highly satisfactory.

Merrild Kaffe has also adopted Lavazza's Employee Code of Conduct, which provides guidance and support for each employee, and outlines the main ethical rules and rules of conduct for each employee.

Human rights

Policy:

Merrild Kaffe wants to contribute positively to the local communities where the coffee is grown. Merrild Kaffe respects the internationally recognized human rights and does not accept any violations of these.

We only wish to collaborate with suppliers who share our commitment to respecting human rights, having the highest health and safety practices, and minimizing the environmental impact.

Management's review

Risks, actions and results:

The most material risk associated with human rights has to do with the supply chain and more specifically with the working conditions in the coffee plantations. For this reason, it is mainly through our procurement of coffee beans that Merrild Kaffe has the largest impact on human rights.

Procurement is managed through the parent company Lavazza. Mutual commitments and responsibilities between Lavazza and the supplier are communicated through the Code of Conduct, which was updated in 2017. The Code of Conduct is built in the ten principles of the UN Global Compact, the Universal Declaration for Human Rights, the International Labor Standards of the ILO, and Children's Rights and Business Principles developed by Save the Children, UNICEF and UN Global Compact.

Lavazza asks suppliers to sign and accept the Supplier Code of Conduct and to act in accordance with the rules set out. All new direct suppliers were communicated and asked to sign the Code of Conduct in 2018.

Anti-corruption

Policy:

Merrild Kaffe does not accept corruption or bribery in any form and does not allow our employees to receive any gifts or entertainment, that may influence their business decisions.

Risks, actions and results:

The most material risks associated with anti-corruption are related gifts and entertainment to our purchasers, which may influence the purchasing decisions.

To mitigate these risks, we inform our employees of our stand towards corruption and bribery, as well as our gift giving and receiving principles. We did not experience any violations of this in 2018.

Donations

Besides working with sustainability to improve the lives of coffee farmers, Merrild Kaffe has decided to donate coffee annually to various local organizations in Denmark. In 2018, the company donated 100.000 cups of coffee to Kirkens Korshær, as well as to organizations that reduce food waste and support veterans and other exposed groups of the Danish society. Merrild Kaffe furthermore is a major sponsoring partner for Muskelsvindfonden/Grøn Koncert (The Muscular Dystrophy Foundation).

Recognition and measurement uncertainties

The recognition and measurement of assets and liabilities in the financial statement of 2018 are not subject to any significant uncertainties.

Events after the balance sheet date

No subsequent events have occurred that could materially affect the assessment of the company's financial position.

Management's review

Account of the gender composition of Management

99 b of the Danish Financial Statements Act

It is Merrild Kaffe's policy to promote gender equality in all managerial levels, including the board of directors. While the professional qualifications and educational background of candidates continues to guide hiring decisions at Merrild Kaffe, the company strives to develop and ensure diversity through various initiatives. If possible, HR seeks to ensure that at least one candidate of the underrepresented gender is represented in the recruitment process.

In 2018, the top management of Merrild Kaffe consisted of 57 % men and 43 % women.

Merrild Kaffe's Board of Directors comprises three members, all of whom are men. It is the company's strategy to have more women in the Board to the extent that there are qualified women amongst the candidates. Thus, the company's goal is to have 1 woman in the Board of Directors before the end of 2020.

In 2018, no new board members were elected since no re-election was held.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2018	2017
2	**Revenue**	364,925	366,007
	Cost of sales	-251,834	-253,725
	Other operating income	21	0
	Other external expenses	-67,032	-63,720
	Gross margin	46,080	48,562
3	Staff costs	-35,615	-36,712
4	Amortisation/depreciation of intangible assets and property, plant and equipment	-4,505	-4,346
	Other operating expenses	-14	-56
	Profit before net financials	5,946	7,448
5	Financial income	4	18
6	Financial expenses	-87	-300
	Profit before tax	5,863	7,166
7	Tax for the year	-1,297	-1,570
	Profit for the year	4,566	5,596

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	ASSETS		
	Fixed assets		
8	**Intangible assets**		
	Goodwill	52,487	55,620
		52,487	55,620
9	**Property, plant and equipment**		
	Plant and machinery	2,684	2,704
	Leasehold improvements	1,032	1,447
		3,716	4,151
10	**Investments**		
	Shares in subsidiaries	18,653	18,653
		18,653	18,653
	Total fixed assets	74,856	78,424
	Non-fixed assets		
	Inventories		
	Finished goods and goods for resale	23,069	25,328
		23,069	25,328
	Receivables		
	Trade receivables	19,821	21,021
	Receivables from group enterprises	8,259	3,336
	Corporation tax receivable	1,328	1,500
	Other receivables	213	426
	Prepayments	419	563
		30,040	26,846
	Cash	40,222	90,102
	Total non-fixed assets	93,331	142,276
	TOTAL ASSETS	168,187	220,700

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
11	Share capital	50	50
	Retained earnings	106,335	101,769
	Total equity	106,385	101,819
	Provisions		
12	Deferred tax	3,843	2,546
	Total provisions	3,843	2,546
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	7,466	6,247
	Payables to group enterprises	32,928	92,095
	Other payables	17,565	17,993
		57,959	116,335
	Total liabilities other than provisions	57,959	116,335
	TOTAL EQUITY AND LIABILITIES	168,187	220,700

1 Accounting policies
13 Contractual obligations and contingencies, etc.
14 Related parties
15 Fee to the auditors appointed by the Company in general meeting

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 1 January 2017	50	96,173	96,223
16	Transfer, see "Appropriation of profit"	0	5,596	5,596
	Equity at 1 January 2018	50	101,769	101,819
16	Transfer, see "Appropriation of profit"	0	4,566	4,566
	Equity at 31 December 2018	50	106,335	106,385

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Merrild Kaffe ApS for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

In accordance with section 112(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements. The annual report of Merrild Kaffe ApS and its subsidiary is included in the Consolidated Financial Statements of Luigi Lavazza S.p.A.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement is prepared for the parent company, as its cash flows are reflected in the consolidated cash flow statement of Luigi Lavazza S.p.A.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses. Non-current assets acquired in foreign currencies are measured at the exchange rate at the transactions date.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Income from the sale of goods for resale and finished goods is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

Goodwill is amortised over the expected economic life of the asset, measured by reference to Management's experience in the individual business segments. Goodwill is amortised on a straight-line basis over the amortisation period, which is 20 years.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Goodwill	20 years
Plant and machinery	4-8 years
Leasehold improvements	5 years

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Financial income and expenses

Financial income and expenses comprise interest income and expense, charges in respect of finance leases, realised and unrealised gains and losses on payables and transactions denominated in foreign currencies and refunds under the on-account tax scheme, etc.

Dividend from investments in subsidiaries is recognised in the income statement in the financial year when the dividend is declared.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Intangible assets

On initial recognition, intangible assets are measured at cost.
Goodwill acquired is subsequently measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over the estimated useful life estimated at 20 years, as goodwill is assessed to possess long-term market potential.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Investments

Investments in subsidiaries are measured at cost. If cost exceeds the recoverable amount, a write-down is made to this lower.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Segment information

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly in the organisation of sales of goods and services.

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Current ratio	$\dfrac{\text{Current assets x 100}}{\text{Current liabilities}}$
Equity ratio	$\dfrac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\dfrac{\text{Profit/loss for the year after tax x 100}}{\text{Average equity}}$

Financial statements 1 January - 31 December

Notes to the financial statements

2 **Segment information**

Split of revenue in business activities (§96) is omitted with reference to section §11, pcs 2, since management believes that the information can cause significant damage, as the industry especially in the professional segment is characterized by few participants.

Revenue in Merrild Kaffe ApS relates to sales in primary Denmark, Baltic and the rest of northern Europa.

	DKK'000	2018	2017
3	**Staff costs**		
	Wages/salaries	30,117	33,623
	Pensions	5,076	2,793
	Other social security costs	422	296
		35,615	36,712
	Average number of full-time employees	58	54

Total remuneration to Management: DKK 4,696 (2017: DKK 4,944)

4	**Amortisation/depreciation of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	3,133	3,546
	Depreciation of property, plant and equipment	1,372	800
		4,505	4,346
5	**Financial income**		
	Other financial income	4	18
		4	18
6	**Financial expenses**		
	Other financial expenses	87	300
		87	300

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Notes to the financial statements

	DKK'000	2018	2017
7	**Tax for the year**		
	Deferred tax adjustments in the year	1,301	1,622
	Tax adjustments, prior years	-4	-52
		1,297	1,570

	DKK'000	Goodwill
8	**Intangible assets**	
	Cost at 1 January 2018	62,670
	Cost at 31 December 2018	62,670
	Impairment losses and amortisation at 1 January 2018	7,050
	Amortisation for the year	3,133
	Impairment losses and amortisation at 31 December 2018	10,183
	Carrying amount at 31 December 2018	**52,487**

	DKK'000	Plant and machinery	Leasehold improvements	Total
9	**Property, plant and equipment**			
	Cost at 1 January 2018	4,093	2,076	6,169
	Additions	1,023	0	1,023
	Disposals	-225	0	-225
	Cost at 31 December 2018	4,891	2,076	6,967
	Impairment losses and depreciation at 1 January 2018	1,389	629	2,018
	Depreciation	957	415	1,372
	Depreciation and impairment of disposals	-139	0	-139
	Impairment losses and depreciation at 31 December 2018	2,207	1,044	3,251
	Carrying amount at 31 December 2018	2,684	1,032	3,716
	Depreciated over	4-5 years	5 years	

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10 **Investments**

Name	Interest	Equity DKK'000	Profit/loss DKK'000
Subsidiaries			
Merrild Baltic SIA	100.00%	9,462	1,608

DKK'000	2018	2017
11 **Share capital**		
Analysis of the share capital:		
50,000 shares of DKK 1.00 nominal value each	50	50
	50	50

Analysis of changes in the share capital over the past 4 years:

DKK'000	2018	2017	2016	2015
Opening balance	50	50	50	50
	50	50	50	50

DKK'000	2018	2017
12 **Deferred tax**		
Deferred tax at 1 January	2,546	976
Ajustment	-4	-51
Other deferred tax	1,301	1,621
Deferred tax at 31 December	3,843	2,546
Deferred tax relates to:		
Intangible assets	4,161	2,881
Property, plant and equipment	220	213
Tax loss	-538	-548
	3,843	2,546

13 **Contractual obligations and contingencies, etc.**

Other financial obligations

Other rent and lease liabilities:

	2018	2017
Rent and lease liabilities	6,105	8,971

The company has a rent obligation and has entered into operating leases on cars and IT equipment

Specified as:

Due within 1 year	3,099
Due after 1 year	3,906

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14 Related parties

Merrild Kaffe ApS' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Luigi Lavazza S.p.A.	Torino, Italy	Participating interest Shareholders' agreement Participating interest

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Luigi Lavazza S.p.A.	Torino, Italy	at the Company's address or on the Company's website www.lavazza.com

Related party transactions

Related party transactions effected in 2018 were carried out on market terms, and therefore related party transactions are not disclosed in the financial statements in accordance with section 98c(7) of the Danish Financial Statements Act.

All transactions have been carried out on an arm's length basis.

Subsidiaries

Merrild Baltic SIA, Riga, Letvia.

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the share capital:

Name	Domicile
Luigi Lavazza S.p.A.	Torino, Italy

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DKK'000	2018	2017
15 Fee to the auditors appointed by the Company in general meeting		
Statutory audit	150	150
Tax assistance	16	30
Other assistance	238	60
	404	240
16 Appropriation of profit		
Recommended appropriation of profit		
Retained earnings	4,566	5,596
	4,566	5,596