Merrild Kaffe ApS

Erritsø Møllebanke 3, 7000 Fredericia

CVR no. 36 47 39 40

Annual report 2019

Approved at the Company's annual general meeting on 30 March 2020

Chairman:

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Søren Svinding

Building a better working world

Contents

Statement by Management

The Board of Directors and the Executive Board have today discussed and approved the annual report of Merrild Kaffe ApS for the financial year 1 January –31 December 2019.

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

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2019 and of the results of their operations and consolidated cash flows for the financial year 1 January –31 December 2019.

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

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

Fredericia, 30 March 2020
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 shareholders of Merrild Kaffe ApS

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Merrild Kaffe ApS for the financial year 1 January –31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December2019 and of the results of the Group's and the Parent Company's operations as well as consolidated cash flows for the financial year 1 January –31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and 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 consolidated financial statements and parent company 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 Group's and the Parent 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 Group or the Parent 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 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.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and 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 Group's and the Parent 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 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 the Group's and the Parent 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 Group and the Parent 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.
- Obtain sufficient and 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.

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.

Independent auditor's report

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 Statements Act. We did not identify any material misstatement of the Management's review.

Odense, 30 March 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Søren Smedegaard Hvid
State Authorised
Public Accountant
mne31450

Torben Ahle Pedersen
State Authorised
Public Accountant
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 for the Group

DKK'000	2019	2018
Key figures		
Revenue	400,511	372,936
Gross margin	61,096	57,948
Operating profit	11,844	6,925
Net financials	-167	-83
Profit for the year	9,304	5,505
Non-current assets	63,372	67,852
Current assets	96,618	101,204
Total assets	159,990	169,056
Equity	117,749	108,468
Cash flows from operating activities	983	-42,259
Cash flows from investing activities	-897	-940
Cash flows from financing activities	1,217	-1
Total cash flows	1,303	-43,200
Financial ratios		
Gross margin	15.3%	15.5%
Equity ratio	73.6%	64.2%
Return on equity	8.2%	5.2%
Average number of full-time employees	**67**	**69**

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines.

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

Gross margin $\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$

Equity ratio $\frac{\text{Equity ex. non-controlling interest at year end x 100}}{\text{Total equity and liabilities at year end}}$

Return on equity $\frac{\text{Profit/loss for the year after tax ex. non-controlling interests x 100}}{\text{Average equity ex. non-controlling interests}}$

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 2019 shows a profit of DKK'000 8,054, and at 31 December 2019 the balance sheet of the Company shows equity of DKK'000 114,439. 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 2019 shows a profit of €'000 259 equals DKK'000 1,922 and at 31 December 2019 the balance sheet of the Company shows equity of €'000 1,529 equals DKK'000 11,389.

Merrild Baltic SIA is working as Merrild Kaffe ApS' 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.

Since 31. December 2019 the Corona-19 virus has emerged. It is for all a serious issue. Distribution of coffee from Lavazza Italy have not been affected by the outbreak of the Corona-19 virus. All goods to and from Italy can float freely.

It is too soon to state an impact on our future business.

We monitor the situation on a daily basis and are in close contact with Lavazza HQ.

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

Special risks

Operation 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.

Management's review

Financial risks

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

Currency risks

The 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.

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 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 market tracking, ad hoc research and product development.

Statutory CSR report

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

Business model

The main activities of Merrild Kaffe ApS 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 ApS' main geographic markets are Denmark, the North Atlantic and the Baltic countries.

Merrild Kaffe ApS values ethical behaviour and cooperates with suppliers, entrepreneurs, partners and distributors to ensure responsible business practices throughout the value chain. The company recognizes 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.

Management's review

Merrild Kaffe ApS 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 ApS 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.

In 2017, Lavazza Group also took up the challenge issued by the United Nations by pursuing and promoting the 17 Sustainable Development Goals set out in the 2030 Agenda for Sustainable

Development: the UN Global Goals, thus the goals are today the framework for the Lavazza Groups sustainability effort and strategy.

Environment and Climate

Policy

Merrild Kaffe ApS 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.

In 2010, Lavazza Group became a founding member of Coffee&Climate, an initiative that aims to study the effects of climate change on coffee and provide small growers the technical tools they need to respond effectively to this challenge. From 2010 to 2015, approximately 4,000 coffee-growers benefited from the technical support necessary to increase the resilience of their production systems.

The pilot projects were implemented in Vietnam, Tanzania, Trifinio (an area on the border between

Guatemala, Salvador and Honduras) and Brazil. The second phase of the initiative, which were to be completed by the end of 2019, involved an expansion of the number of projects to encompass up to 80,000 growers.

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 ApS 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.

Lavazza's commitment to CSR comes to life through the Lavazza Foundation, which promotes and implements economic, social, and environmental sustainability projects in coffee producing communities across the globe. More than 94,0000 coffee producers have benefitted from Lavazza Foundation activity, through 24 projects in 17 countries.

The Foundation caters to the needs of coffee producers, improving the yield and quality of their products by providing trainings and resources that encourage the development of entrepreneurial skills. 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.

Management's review

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

Risks, actions and results

Merrild Kaffe ApS only has a sales office in Denmark, and the most prominent risk for Merrild Kaffe ApS 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 2019, 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 ApS wants to contribute positively to the local communities where the coffee is grown. Merrild Kaffe ApS 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.

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 ApS 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 up-dated 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

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 2019.

Anti-corruption

Policy

Merrild Kaffe ApS 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 2019.

Management's review

Donations

Besides working with sustainability to improve the lives of coffee farmers, Merrild Kaffe ApS has decided to donate coffee annually to various local organizations in Denmark. In 2019, the company donated 250.000 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 ApS furthermore is a major sponsoring partner for Muskelsvindfonden (The Muscular Dystrophy Foundation) sponsoring national events as Grøn Koncert and Cirkus Summerum. The sponsorship includes a fiscal donation to the foundation and collection though sale of coffee at the events, the earnings goes uncut to the foundation.

Account of the gender composition of Management

99 b of the Danish Financial Statements Act

It is Merrild Kaffe ApS' 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 ApS, 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 2019, the top management of Merrild Kaffe ApS consisted of 57 %men and 43 %women.

Merrild Kaffe ApS' 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 2021.

In 2019, no new board members were elected since no re-election was held.

Recognition and measurement uncertainties

The recognition and measurement of assets and liabilities in the financial statement of 2019 are not subject to any significant uncertainties.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Income statement

Note	DKK'000	Group 2019	Group 2018	Parent 2019	Parent 2018
	Revenue	400,511	372,936	391,849	364,925
	Cost of sales	-259,671	-244,710	-266,472	-251,834
	Other operating income	64	22	64	21
3	Other external expenses	-79,808	-70,300	-75,865	-67,033
	Gross margin	61,096	57,948	49,576	46,079
4	Staff costs	-43,801	-45,581	-34,410	-35,614
	Amortisation/depreciation of the intangible assets and property, plant and equipment	-5,394	-5,305	-4,593	-4,505
	Other operating expenses	-57	-137	-46	-14
	Profit before net financials	11,844	6,925	10,527	5,946
5	Financial income	6	4	6	4
6	Financial expenses	-173	-87	-173	-87
	Profit before tax	11,677	6,842	10,360	5,863
7	Tax for the year	-2,373	-1,337	-2,306	-1,297
	Profit for the year	9,304	5,505	8,054	4,566

Consolidated financial statements and parent company financial statements
1 January – 31 December

Balance sheet

Note	DKK'000	Group 2019	Group 2018	Parent 2019	Parent 2018
	ASSETS				
	Non-current assets				
	Intangible assets				
8	Goodwill	49,353	52,487	49,353	52,486
	Goodwill re. subsidiaries	10,574	11,247	0	0
		59,927	63,734	49,353	52,486
9	**Property, plant and equipment**				
	Plant and machinery	2,735	2,949	2,554	2,685
	Leasehold improvements	710	1,169	617	1,032
		3,445	4,118	3,171	3,717
	Other non-current assets				
10	Equity investments in subsidiaries	0	0	18,653	18,653
		0	0	18,653	18,653
	Total non-current assets	63,372	67,852	71,177	74,856
	Current assets				
	Inventories				
	Finished goods and goods for resale	29,813	23,069	29,813	23,069
		29,813	23,069	29,813	23,069
	Receivables				
	Trade receivables	1,994	19,988	1,757	19,821
	Receivables from group enterprises	14,900	8,260	14,900	8,259
	Corporation tax	0	1,328	0	1,328
	Other receivables	118	213	118	213
	Prepayments	572	428	563	419
		17,584	30,217	17,338	30,040
	Cash	49,221	47,918	39,191	40,222
	Total current assets	96,618	101,204	86,342	93,331
	TOTAL ASSETS	159,990	169,056	157,519	168,187

Consolidated financial statements and parent company financial statements
1 January – 31 December

Balance sheet

Note	DKK'000	Group 2019	Group 2018	Parent 2019	Parent 2018
	EQUITY AND LIABILITIES				
	Equity				
11	Share capital	50	50	50	50
	Retained earnings	67,699	108,418	64,389	106,335
	Proposed dividend	50,000	0	50,000	0
	Total equity	117,749	108,468	114,439	106,385
	Provision				
12	Deferred tax	5,662	3,843	5,662	3,843
	Total provisions	5,662	3,843	5,662	3,843
	Long-term liabilities				
13	Other payables	1,217	0	1,217	0
	Total long-term liabilities	1,217	0	1,217	0
	Short-term liabilities				
	Trade payables	9,544	7,509	9,518	7,466
	Payables to group enterprises	7,159	30,662	9,101	32,928
	Corporation tax	487	9	487	0
	Other payables	18,172	18,565	17,095	17,565
	Total short-term liabilities	35,362	56,745	36,201	57,959
	Total liabilities	36,579	56,745	36,201	57,959
	TOTAL EQUITY AND LIABILITIES	159,990	169,056	157,519	168,187

1 Accounting policies
2 Segment information
14 Contractual obligations and contingencies, etc.
15 Related parties

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

Note	DKK'000	Group			
		Share capital	Retained earnings	Proposed dividend	Total
	Equity at 1 January 2018	50	102,890	0	102,940
	Transferred; see distribution of profit/loss	0	5,506	0	5,506
	Foreign exchange adjustments, foreign subsidiary	0	22	0	22
	Equity at 1 January 2019	50	108,418	0	108,468
	Transferred; see distribution of profit/loss	0	-40,696	50,000	9.304
	Foreign exchange adjustments, foreign subsidiary	0	-23	0	-23
	Equity at 31 December 2019	50	67,699	50,000	117,749

Note	DKK'000	Parent			
		Share capital	Retained earnings	Proposed dividend	Total
	Equity at 1 January 2018	50	101,796	0	101,819
	Transferred; see distribution of profit/loss	0	4,566	0	4,566
	Equity at 1 January 2019	50	106,362	0	106,385
17	Transferred; see distribution of profit/loss	0	-41,946	50,000	8,054
	Equity at 31 December 2019	50	64,416	50,000	114,439

Consolidated financial statements and parent company financial statements 1 January – 31 December

Cash flow statement

Note	DKK'000	Group 2019	Group 2018
	Profit before net financials	11,844	6,925
	Depreciation and amortisation	5,376	5,284
	Cash generated from operations before changes in working capital	17,220	12,209
17	Changes in working capital	-17,294	-54,475
	Cash generated from operations	-74	-42,266
	Interest received	6	4
	Interest paid	-173	-87
	Corporation tax paid	1,224	90
	Cash flows from operating activities	983	-42,259
	Acquisition of intangible assets		
	Acquisition of property, plant and equipment	-1,074	-1,047
	Disposal of property, plant and equipment	177	107
	Cash flows from investing activities	-897	-940
	Loan financing:		
	Repayment of long-term liabilities	0	-1
	Raising of loan in the Employees' Fund for Residual Holiday Funds	1,217	0
	Shareholders:		
	Distributed dividend	0	0
	Cash flows from financing activities	1,217	-1
	Cash flows for the year	1,303	-43,200
	Cash and cash equivalents, beginning of year	47,918	91,118
	Cash and cash equivalents, year end	49,221	47,918

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Merrild Kaffe ApS for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

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

Consolidated financial statements

Control

The consolidated financial statements comprise the Parent Company Merrild Kaffe ApS and subsidiaries controlled by Merrild Kaffe ApS.

Control means the power to exercise decisive influence over a subsidiary's financial and operating decisions. Moreover, the possibility of yielding a return from the investment is required.

In assessing whether the Parent Company controls an entity, de facto control is also taken into consideration.

The existence of potential voting rights that may currently be exercised or converted into additional voting rights is considered when assessing whether an entity may become empowered to exercise decisive influence over another entity's financial and operating decisions.

Preparation of consolidated financial statements

The consolidated financial statements are prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements, which are prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends as well as realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains unless they do not reflect impairment.

The subsidiaries' financial statement items are included 100% in the consolidated financial statements.

Acquisitions and disposals of non-controlling interests that are still controlled are recognised directly in equity as a transaction between shareholders.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates 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, payables and other monetary items denominated in foreign currencies are translated at the exchange rates 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 latest financial statements is recognised in the income statement as financial income or financial expenses.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Foreign subsidiaries are considered separate entities. The income statements are translated at the average exchange rates for the month, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of foreign entities at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

Foreign exchange adjustments of balances with foreign subsidiaries that are considered part of the total investment in the subsidiary are recognised directly in equity. Foreign exchange gains and losses on loans and derivative financial instruments designated as hedges of foreign subsidiaries are also recognised directly in equity.

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".

Income statement

Revenue

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

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

Income from the sale of goods for resale and finished goods, including #, is recognised in revenue when the most significant rewards and risks have been transferred to the buyer, 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.

Cost of sales

Cost of sales include 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.

Other operation income

Other operating income comprises items secondary to the entities' activities, including gains on disposal of intangible assets and property, plant and equipment.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Financial income and expenses

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax for the year

Tax for the year comprises current income tax and changes in deferred tax for the year due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts recognised directly in equity is recognised directly in equity.

Balance sheet

Intangible assets

Goodwill

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 estimated at 20 years. The amortisation period is fixed on the basis of the expected repayment horizon and is longest for strategically acquired entities with strong market positions and long-term earnings profiles.

Plant, equipment and leasehold improvements

Plant and machinery and fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, wages and salaries as well as borrowing costs relating to specific and general borrowing directly attributable to the construction of the individual asset.

Individual components, plant and equipment that have different useful lives are accounted for as separate items, which are depreciated separately.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets, which are as follows:

Plant and machinery	4-5 years
Leasehold improvements	5 years

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

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Notes

1 Accounting policies (continued)

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

Equity investments in subsidiaries in the parent company financial statements

Equity investments in subsidiaries are measured at cost in the parent company financial statements.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding the consolidated financial statements above.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies in the consolidated financial statements. Negative goodwill is recognised in the income statement.

Impairment of non-current assets

The carrying amount of intangible assets, plant and equipment, leasehold improvements and equity investments in subsidiaries is tested annually for indication of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is indication of impairment. Write-down is made to the lower of the carrying amount and the recoverable amount.

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 determined as the selling price less costs of completion and costs incurred to effect the sale, taking into account marketability, obsolescence and developments in the expected selling price.

Receivables

Receivables are measured at amortised cost.

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

Write-down for bad and doubtful debts is made when there is objective evidence that a receivable or a portfolio of receivables has been impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Dividend

Proposed dividend is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is presented as a separate line item in equity.

Corporation tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on taxable income in previous years and tax paid on account.

Deferred tax is measured using the balance sheet 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 non-deductible goodwill and on office premises and other items where temporary differences – apart from acquisitions – arise at the acquisition date 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 assets, including the tax value of tax loss carryforwards, 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 and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of entities is shown separately in cash flows from investing activities. Cash flows from acquisitions of entities are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of entities are recognised up until the date of disposal.

Cash flows from operating activities

Cash flows from operating activities are calculated as the Group's share of the profit/loss adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities, activities and intangible assets, property, plant and equipment and investments.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the Group's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt and payment of dividend to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less that are subject to only minor risks of changes in 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.

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.

		Group		Parent	
	DKK'000	2019	2018	2019	2018
3	**Fees paid to auditor appointed at the annual general meeting**				
	Total fees to EY	269	441	232	404
	Fee for statutory audit	226	187	189	150
	Tax consultancy	11	16	11	16
	Other assistance	32	238	32	238
		269	441	232	404
4	**Staff costs**				
	Wages/salaries	37,205	39,230	28,605	30,116
	Pensions	5,330	5,076	5,330	5,076
	Other social security costs	1,266	1,275	475	422
		43,801	45,581	34,410	35,614
	Average number of full-time employees	67	69	55	58

Total remuneration to Management:
DKK 4,845 (2018: DKK 4,696)

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1 January – 31 December

Notes

DKK'000	Group 2019	Group 2018	Parent 2019	Parent 2018
5 Financial income				
Other interest income	6	4	6	4
	6	4	6	4
6 Financial expenses				
Other interest expenses	173	87	173	87
	173	87	173	87
7 Tax for the year				
Current tax for the year	554	40	487	0
Deferred tax adjustment for the year	1,819	1,301	1,819	1,301
Tax adjustment, prior years	0	-4	0	-4
	2,373	1,337	2,306	1,297

8 Intangible assets

DKK'000	Group Goodwill	Parent Goodwill
Cost at 1 January 2019	62,670	62,670
Cost at 31 December 2019	62,670	62,670
Amortisation and impairment losses at 1 January 2019	10,184	10,184
Amortisation	3,133	3,133
Amortisation and impairment losses at 31 December 2019	13,317	13,317
Carrying amount at 31 December 2019	49,353	49,353
Amortised over	20 years	20 years

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

9 Plant, equipment and leasehold improvements

	Group		
DKK'000	Plant and machinery	Leasehold improvements	Total
Cost at 1 January 2019	5,299	2,265	7,564
Additions	1,074	0	1,074
Disposals	-415	0	-415
Cost at 31 December 2019	5,958	2,265	8,223
Depreciation and impairment losses at 1 January 2019	2,350	1,096	3,446
Depreciation	1,128	459	1,587
Disposals	-255	0	-255
Depreciation and impairment losses at 31 December 2019	3,223	1,555	5,947
Carrying amount at 31 December 2019	2,735	710	3,445
Depreciated over	3-5 years	5 years	

	Parent		
DKK'000	Plant and machinery	Leasehold improvements	Total
Cost at 1 January 2019	4,892	2,076	6,968
Additions	1,074	0	1,074
Disposals	-415	0	-415
Cost at 31 December 2019	5,551	2,076	7,627
Depreciation and impairment losses at 1 January 2019	2,207	1,044	3,251
Depreciation	1,045	415	1,460
Disposals	-255	0	-255
Depreciation and impairment losses at 31 December 2019	2,997	1,459	4,456
Carrying amount at 31 December 2019	2,554	617	3,171
Depreciated over	4-5 years	5 years	

Consolidated financial statements and parent company financial statements
1 January – 31 December

Notes

10 Investments

Name	Interest	Equity DKK'000	Profit/loss DKK'000
Subsidiaries			
Merrild Baltic SIA	100,00 %	11,389	1,922

11 Share capital

DKK'000	2019	2018
Analysis of the share capital:		
50,000 shares of DKK 1.00 nominal value each	50	50

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

DKK'000	2019	2018	2017	2016
Opening balance	50	50	50	50

	Group		Parent	
DKK'000	2019	2018	2019	2018
12 Deferred tax				
Deferred tax at 1 January	3,843	2,546	3,843	2,546
Adjustment	0	-4	0	-4
Other deferred tax	1,819	1,301	1,819	1,301
Tax on equity transactions	0	0	0	0
Deferred tax at 31 December	5,662	3,843	5,662	3,843

Deferred tax relates to:

Intangible assets	5,441	4,161	5,441	4,161
Property, plant and equipment	221	220	221	220
Tax loss	0	-538	0	-538
	5,662	3,843	5,662	3,843

13 Other payables

No part of other payables is falling due more than five years after the balance sheet date.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

DKK'000	Group 2019	Group 2018	Parent 2019	Parent 2018
14 Contractual obligations and contingencies, etc.				
Other financial obligations				
Rent and lease liabilities	7,795	6,105	7,795	6,105

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

Specified as:

Due within 1 year 3,508 DKK
Due after 1 year 4,287 DKK

15 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

Related party	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 2019 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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Notes

DKK'000	Parent 2019	Parent 2018
16 Distribution of profit/loss		
Proposed distribution of profit/loss		
Dividend proposed for the year	50,000	0
Transferred to equity reserves	-41,946	4,566
	8,054	4,566

DKK'000	Group 2019	Group 2018
17 Changes in working capital		
Changes in inventories	-6,744	2,259
Changes in receivables	11,312	4,535
Changes in trade and other payables	-21,862	-61,269
Fair value adjustments of hedging instruments recognised in equity	0	0
	-17,294	-54,475

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Søren Svinding
CFO
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2020-03-30 07:33:18Z
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Peter Henrik Falk
CEO
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Torben Ahle Pedersen
Statsautoriseret revisor
På vegne af: ERNST & YOUNG P/S
Serienummer: PID:9208-2002-2-905574870026
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Søren Smedegaard Hvid
Statsautoriseret revisor
På vegne af: Ernst & Young P/S
Serienummer: CVR:30700228-RID:1256831000710
IP: 87.50.xxx.xxx
2020-03-30 10:59:28Z
NEM ID

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