

Merrild Kaffe ApS

Erritsø Møllebanke 3, 7000 Fredericia

CVR no. 36 47 39 40

Annual report 2020

Approved at the Company's annual general meeting on

30 / 6 - 2021

Chairman:



Søren Svinding

Contents

Statement by Management	2
Independent auditor's report	3
Management's review	6
Company details	6
Management's review	7
Consolidated financial statements and parent company financial statements	
1 January – 31 December	14
Income statement	14
Balance sheet	15
Statement of changes in equity	17
Cash flow statement	18
Notes	19

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 2020.


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 2020 and of the results of their operations and consolidated cash flows for the financial year 1 January –31 December 2020.

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, 28 April 2021
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 2020, 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 December 2020 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 2020 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, 28 April 2021
EY 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	EY Godkendt Revisionspartnerselskab Englandsgade 25, P.O. Box 200, 5100 Odense C, Denmark

Management's review

Financial highlights for the Group

DKK'000	2020	2019	2018
Key figures			
Revenue	539,071	400,511	372,936
Gross margin	82,038	61,096	57,948
Operating profit	22,414	11,844	6,925
Net financials	-957	-167	-83
Profit for the year	17,569	9,304	5,505
Non-current assets	60,058	63,372	67,852
Current assets	119,205	96,618	101,204
Total assets	179,263	159,990	169,056
Equity	85,312	117,749	108,468
Cash flows from operating activities	82,849	983	-42,259
Cash flows from investing activities	-2,098	-897	-940
Cash flows from financing activities	-51,217	1,217	-1
Total cash flows	29,534	1,303	-43,200
Financial ratios			
Gross margin	15.2%	15.3%	15.5%
Equity ratio	47.6%	73.6%	64.2%
Return on equity	17.3%	8.2%	5.2%
Average number of full-time employees	70	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	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity ex. non-controlling interest at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax ex. non-controlling interests} \times 100}{\text{Average equity ex. non-controlling interests}}$

Management's review

Main activity

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 2020 shows a profit of DKK'000 17,351, and at 31 December 2020 the balance sheet of the Company shows equity of DKK'000 81,790. 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 2020 shows a profit of €'000 621 equals DKK'000 4,626 and at 31 December 2020 the balance sheet of the Company shows equity of €'000 1,650 equals DKK'000 12,293.

Since COVID-19 started impacting the business in early 2020, we have in Denmark seen a shift from out of home consumption to in home consumption. Distribution of coffee from Lavazza Italy have not been affected by the outbreak of the COVID-19 virus. All goods to and from Italy can float freely.

The above shift in the market have affected our overall result positively. Merrild Kaffe ApS have not made use of any government aid scheme related to COVID-19.

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

Outlook

The expected development

In the beginning of 2021, the trend is still a shift from out of home consumption to in home consumption. When the Pandemic will cease, we predict a swing back to normal market conditions.

Merrild Kaffe ApS expects an increase in its activity, as well as earnings, based on continued growth and further expansion in other categories and brands.

Special risks

Operation risks

In the beginning of 2021, the trend is still a shift from out of home consumption to in home consumption. When the Pandemic will cease, we predict a swing back to normal market conditions.

There seems 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 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, adhoc research and product development.

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, Lavazza and Carte Noire 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.

Since 2001, Lavazza Group has been actively participating in International Coffee Partners (ICP), an organisation that brings together eight European coffee companies committed to sustainability projects in coffee-producing countries. Its mission is to launch, develop and monitor projects that spread agricultural best practices among small coffee growers, while fostering their direct involvement, so that they take charge of improving their working and living conditions. Lavazza Group also participates, as founding member, in the Coffee&Climate initiative. 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 date, approximately 80.000 farmers has been trained in C&C solutions and projects has been implemented in four regions, here Vietnam, Tanzania, Brazil and Central America.

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 Kaffe ApS 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 97,000 coffee producers have benefitted from Lavazza Foundation activity, through 24 projects in 17 countries.

The project supported by the Lavazza Foundation are primarily intended to increase the yield and products of the coffee growers, 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.
- ▶ To support for coffee growers in building and managing their own organizations, like associations, cooperatives and companies.

Management's review

In addition, the Lavazza Foundation's projects also aim to:

- ▶ promote gender equality within families and communities;
- ▶ help young people realize their full potential through training programs that motivate them not to abandon coffee-growing lands and to become coffee entrepreneurs instead;
- ▶ promote the diversification of products in order to reduce risks and facilitate greater food production;
- ▶ support reforestation;
- ▶ spread farming techniques that enable growers to respond effectively to the effects of climate change;
- ▶ introduce technologies to support traditional coffee-growing techniques.

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 Kaffe ApS conducts an annual employee satisfaction survey. In 2020, the results showed an average score of 4.2/5 of general job satisfaction, which Merrild deems highly satisfactory.

Merrild Kaffe ApS 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 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 2020.

Management's review

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 2020. We have in May 2020 send an updated personnel handbook to all employees with a specific point on Gift and Entertainment policy on avoiding any conflict of interest.

COVID-19

Policy

Merrild Kaffe ApS follows recommendations issued by the Danish government on an ongoing basis.

Risks, actions and results

The most material risks associated with COVID-19 are closing of the distributions channel which we deem very unlikely to happen as our main products are food products.

As we deem the risks on our distributions channel very low and outside our governance, we have not established extraordinary measures and tasks to mitigate these circumstances, besides following the guidelines and restrictions from the Danish government.

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 2020, the company made a fiscal donation of Christmas funds to Dansk Folkehjælp and Mødrehjælpen. To the later Merrild Kaffe ApS also donated 125.000 cups of coffee as well as ad hoc coffee is donated to organizations that reduce food waste and support veterans and other exposed groups of the Danish society (e.g. Kirkens Korshærs homeless shelters and community centers).

Merrild Kaffe ApS also support Team Rynkeby Ringe Charity event and furthermore, Merrild Kaffe ApS is a major partner for Muskelsvindfonden (The Muscular Dystrophy Foundation) sponsoring national events as Grøn Koncert and Cirkus Summarum. The sponsorship includes a fiscal donation to the foundation and collection through 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 2020, 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 2022. In 2020, no new board members were elected since no re-election was held.

Management's review

Recognition and measurement uncertainties

The recognition and measurement of assets and liabilities in the financial statement of 2020 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		Parent	
		2020	2019	2020	2019
	Revenue	539,071	400,511	526,697	391,849
	Cost of sales	-359,980	-259,671	-371,769	-266,472
	Other operating income	157	64	157	64
3	Other external expenses	-97,210	-79,808	-90,071	-75,865
	Gross margin	82,038	61,096	65,014	49,576
4	Staff costs	-53,879	-43,801	-41,779	-34,410
	Amortisation/ depreciation of the intangible assets and property, plant and equipment	-5,652	-5,394	-4,707	-4,593
	Other operating expenses	-93	-57	-93	-46
	Profit before net financials	22,414	11,844	18,435	10,527
5	Financial income	1	6	3,731	6
6	Financial expenses	-958	-173	-957	-173
	Profit before tax	21,457	11,677	21,209	10,360
7	Tax for the year	-3,888	-2,373	-3,858	-2,306
	Profit for the year	17,569	9,304	17,351	8,054

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

Balance sheet

Note	DKK'000	Group		Parent	
		2020	2019	2020	2019
	ASSETS				
	Non-current assets				
	Intangible assets				
8	Goodwill	46,220	49,353	46,220	49,353
8	Goodwill re. subsidiaries	9,902	10,574	0	0
		56,122	59,927	46,220	49,353
9	Property, plant and equipment				
	Plant and machinery	3,518	2,735	3,517	2,554
	Leasehold improvements	241	710	241	617
	Prepaid assets	177	0	0	0
		3,936	3,445	3,758	3,171
	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	60,058	63,372	68,631	71,177
	Current assets				
	Inventories				
	Finished goods and goods for resale	31,844	29,813	31,844	29,813
		31,844	29,813	31,844	29,813
	Receivables				
	Trade receivables	734	1,994	734	1,757
	Receivables from group enterprises	7,142	14,900	3,476	14,900
	Other receivables	162	118	40	118
	Prepayments	568	572	540	563
		8,606	17,584	4,790	17,338
	Cash	78,755	49,221	72,387	39,191
	Total current assets	119,205	96,618	109,021	86,342
	TOTAL ASSETS	179,263	159,990	177,652	157,519

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

Balance sheet

Note	DKK'000	Group		Parent	
		2020	2019	2020	2019
	EQUITY AND LIABILITIES				
	Equity				
11	Share capital	50	50	50	50
	Retained earnings	70,262	67,699	66,740	64,389
	Proposed dividend	15,000	50,000	15,000	50,000
	Total equity	85,312	117,749	81,790	114,439
	Provision				
12	Deferred tax	7,207	5,662	7,207	5,662
	Total provisions	7,207	5,662	7,207	5,662
	Long-term liabilities				
13	Other payables	0	1,217	0	1,217
	Total long-term liabilities	0	1,217	0	1,217
	Short-term liabilities				
	Trade payables	21,842	9,544	21,749	9,518
	Payables to group enterprises	39,428	7,159	42,490	9,101
	Corporation tax	61	487	313	487
	Other payables	25,413	18,172	24,103	17,095
	Total short-term liabilities	86,744	35,362	88,655	36,201
	Total liabilities	86,744	36,579	88,655	37,418
	TOTAL EQUITY AND LIABILITIES	179,263	159,990	177,652	157,519

- 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

		Group			
Note	DKK'000	Share capital	Retained earnings	Proposed dividend	Total
	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 1 January 2020	50	67,699	50,000	117,749
	Transferred; see distribution of profit/loss	0	2,569	15,000	17,569
	Foreign exchange adjustments, foreign subsidiary	0	-6		-6
	Dividend distributed	0	0	-50,000	-50,000
	Equity at 31 December 2020	50	70,262	15,000	85,312

		Parent			
Note	DKK'000	Share capital	Retained earnings	Proposed dividend	Total
	Equity at 1 January 2019	50	106,335	0	106,385
	Transferred; see distribution of profit/loss	0	-41,946	50,000	8,054
	Equity at 1 January 2020	50	64,389	50,000	114,439
16	Transferred; see distribution of profit/loss	0	2,351	15,000	17,351
	Dividend distributed	0	0	-50,000	-50,000
	Equity at 31 December 2020	50	66,740	15,000	81,790

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

Cash flow statement

Note	DKK'000	Group	
		2020	2019
	Profit before net financials	22,414	11,844
	Depreciation and amortisation	5,652	5,394
	Other adjustment of non-cash operating items	868	-18
	Cash generated from operations before changes in working capital	28,934	17,220
17	Changes in working capital	57,375	-17,294
	Cash generated from operations	86,309	-74
	Interest received	1	6
	Interest paid	-957	-173
	Corporation tax paid	-2,504	1,224
	Cash flows from operating activities	82,849	983
	Acquisition of intangible assets		
	Acquisition of property, plant and equipment	-2,335	-1,074
	Disposal of property, plant and equipment	237	177
	Cash flows from investing activities	-2,098	-897
	Raising of loan in the Employees' Fund for Residual Holiday Funds	-1,217	1,217
	Shareholders:		
	Distributed dividend	-50,000	0
	Cash flows from financing activities	-51,217	1,217
	Cash flows for the year	29,534	1,303
	Cash and cash equivalents, beginning of year	49,221	47,918
	Cash and cash equivalents, year end	78,755	49,221

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 2020 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Effective from the financial year 2020, the Company has implemented amending act no. 1716 of 27 December 2018 to the Danish Financial Statements Act. The implementation of the amending act has not affected the Company's accounting policies on recognition and measurement of assets and liabilities but has solely entailed new and amended presentation and disclosure requirements.

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.

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

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.

3 Fees paid to auditor appointed at the annual general meeting

DKK'000	Group		Parent	
	2020	2019	2020	2019
Total fees to EY	492	269	300	232
Fee for statutory audit	385	226	193	189
Tax consultancy	2	11	2	11
Other assistance	105	32	105	32
	492	269	300	232

4 Staff costs

Wages/salaries	46,717	37,205	35,545	28,605
Pensions	5,841	5,330	5,841	5,330
Other social security costs	1,321	1,266	393	475
	53,879	43,801	41,779	34,410
Average number of full-time employees	70	67	59	55

Total remuneration to Management:
DKK 5,292 (2019: DKK 4,845)

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

Notes

DKK'000	Group		Parent	
	2020	2019	2020	2019
5 Financial income				
Income from non-current securities and other equity investments	0	0	3,729	0
Other interest income	1	6	2	6
	<u>1</u>	<u>6</u>	<u>3,731</u>	<u>6</u>
6 Financial expenses				
Other interest expenses	340	173	340	173
Exchange losses	618	0	617	0
	<u>958</u>	<u>173</u>	<u>957</u>	<u>173</u>
7 Tax for the year				
Current tax for the year	2,343	554	2,313	487
Deferred tax adjustment for the year	1,545	1,819	1,545	1,819
	<u>3,888</u>	<u>2,373</u>	<u>3,858</u>	<u>2,306</u>
8 Intangible assets				
DKK'000	Group		Parent	
	Goodwill		Goodwill	
Cost at 1 January 2020	76,100		62,670	
Cost at 31 December 2020	76,100		62,670	
Amortisation and impairment losses at 1 January 2020	16,173		13,317	
Amortisation	3,805		3,133	
Amortisation and impairment losses at 31 December 2020	19,978		16,450	
Carrying amount at 31 December 2020	<u>56,122</u>		<u>46,220</u>	
Amortised over	<u>20 years</u>		<u>20 years</u>	

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

Notes

9 Plant, equipment and leasehold improvements

DKK'000	Group			Total
	Plant and machinery	Leasehold improvements	Prepaid assets	
Cost at 1 January 2020	5,958	2,265	0	8,223
Additions	2,335	0	177	2,512
Disposals	-1,121	-189	0	-1,310
Cost at 31 December 2020	7,172	2,076	177	9,425
Depreciation and impairment losses at 1 January 2020	3,223	1,555	0	4,778
Depreciation	1,380	472	0	1,852
Disposals	-949	-192	0	-1,141
Depreciation and impairment losses at 31 December 2020	3,654	1,835	0	5,489
Carrying amount at 31 December 2020	3,518	241	177	3,936
Depreciated over	3-5 years	5 years		

DKK'000	Parent		Total
	Plant and machinery	Leasehold improvements	
Cost at 1 January 2020	5,551	2,076	7,627
Additions	2,335	0	2,335
Disposals	-714	0	-714
Cost at 31 December 2020	7,172	2,076	9,248
Depreciation and impairment losses at 1 January 2020	2,998	1,459	4,457
Depreciation	1,198	376	1,574
Disposals	-541	0	-541
Depreciation and impairment losses at 31 December 2020	3,655	1,835	5,490
Carrying amount at 31 December 2020	3,517	241	3,758
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 %	12,273	4,619

11 Share capital

DKK'000	2020	2019
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	2020	2019	2018	2017
Share capital	50	50	50	50

DKK'000	Group		Parent	
	2020	2019	2020	2019
12 Deferred tax				
Deferred tax at 1 January	5,662	3,843	5,662	3,843
Adjustment	0	0	0	0
Other deferred tax	1,545	1,819	1,545	1,819
Deferred tax at 31 December	7,207	5,662	7,207	5,662

Deferred tax relates to:

Intangible assets	6,721	5,441	6,721	5,441
Property, plant and equipment	486	221	486	221
	7,207	5,662	7,207	5,662

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		Parent	
	2020	2019	2020	2019
14 Contractual obligations and contingencies, etc.				
Other financial obligations				
Rent and lease liabilities	5,840	7,795	5,840	7,795

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

Due within 1 year 3,077 DKK
Due after 1 year 2,763 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 2020 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, Latvia.

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

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

Notes

DKK'000	Parent	
	2020	2019
16 Distribution of profit/ loss		
Proposed distribution of profit/ loss		
Dividend proposed for the year	15,000	50,000
Transferred to equity reserves	2,351	-41,946
	<u>17,351</u>	<u>8,054</u>
DKK'000	Group	
	2020	2019
17 Changes in working capital		
Changes in inventories	-2,856	-6,744
Changes in receivables	8,850	11,312
Changes in trade and other payables	51,381	-21,862
	<u>57,375</u>	<u>-17,294</u>

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Peter Henrik Falk

CEO

På vegne af: Merrild Kaffe ApS

Serienummer: PID:9208-2002-2-606752908343

IP: 165.225.xxx.xxx

2021-04-29 09:20:15Z

NEM ID 

Søren Svinding

CFO

På vegne af: Merrild Kaffe ApS

Serienummer: PID:9208-2002-2-103453519921

IP: 165.225.xxx.xxx

2021-04-29 12:32:02Z

NEM ID 

Peter Henrik Falk

Bestyrelse

På vegne af: Merrild Kaffe ApS

Serienummer: PID:9208-2002-2-606752908343

IP: 165.225.xxx.xxx

2021-04-29 13:07:25Z

NEM ID 

Søren Svinding

Bestyrelse

På vegne af: Merrild Kaffe ApS

Serienummer: PID:9208-2002-2-103453519921

IP: 165.225.xxx.xxx

2021-05-03 14:11:28Z

NEM ID 

Torben Ahle Pedersen

Statsautoriseret revisor

På vegne af: EY Godkendt Revisionspartnerselskab

Serienummer: CVR:30700228-RID:16347828

IP: 145.62.xxx.xxx

2021-05-03 14:12:57Z

NEM ID 

Søren Smedegaard Hvid

Statsautoriseret revisor

På vegne af: EY Godkendt Revisionspartnerselskab

Serienummer: CVR:30700228-RID:1256831000710

IP: 87.50.xxx.xxx

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