

UCC Europe Limited

Report and Financial Statements

31 December 2019

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COMPANIES HOUSE

Officers and other corporate information

Directors

Seisuke Ueshima
Tsukasa Sato
Gota Ueshima
Masaro Ueshima
Yasumasa Shimura
Hideyuki Yasuda
Kazuhiro Tashiro
Paul Molyneux (appointed on 14 May 2019)

Secretary

TMF Corporate Administration Services Limited
8th Floor
20 Farringdon Street
London EC4A 4AB

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

8th Floor
20 Farringdon Street
London EC4A 4AB

Strategic report

Business model and strategy

UCC Europe Ltd. is a subsidiary of UCC Holdings Co Ltd. in Japan. UCC Europe Ltd. has turnover of €450.3 million and 1,559 employees (€454.9 million and 1,546 employees in 2018). It is the largest private label coffee roaster in Europe.

UCC Europe Ltd. has its main operations in five countries including the UK, France, The Netherlands, Spain and Switzerland. UCC Europe Ltd is private label retail market leader in several European markets and has a number of longstanding relationships with leading European retailers. In the out-of-home and food service market, UCC has developed strong client relationships with many globally recognised market leaders.

UCC Europe Ltd. has ambitious plans for growth and is expecting to further grow Operating Profit in the coming years. This growth is driven by the rapidly expanding private label capsule market, expansion of our product offerings, further expanding market share in the growing out of home channel and by entering new markets across Europe. UCC Europe Ltd. has invested and will continue to invest significantly in these areas.

UCC Europe Ltd. is dedicated to working with internationally recognised codes of conduct, including Fairtrade, Rainforest Alliance and UTZ Certified and is a leader in sustainable coffee.

Risk management, including principal risks and uncertainties

To manage the general business and specific risks it faces, the Group recognizes six main areas for risk management:

- Internal controls over business processes and operational procedures
- The Group's coffee procurement and its position in the coffee market
- Exposures to foreign currency fluctuations
- Business interruption
- Brexit
- Coronavirus (COVID-19).

Internal controls

The Group maintains a professional framework of risk assessment and key controls to ensure the integrity of its business processes and the quality of management information. The operating companies carry out periodic self-assessments to monitor the quality of their controls and maintain continuous improvement.

Coffee procurement

For the procurement of its main raw material the Group is an active "top 10"-player in the global coffee market, sourcing a large variety of coffees originating from South America, Asia and Africa. The Group's centre of excellence in Switzerland procured 77,962 tons (77,781 in 2018) of Arabica and Robusta coffees at a value of €164.5 million (€179.6 million in 2018). These coffees are traded on the world's coffee markets in New York and London.

The Group manages its procurement risks with a strong framework of controls including hedging and state of the art purchasing and blending expertise.

Management has introduced a number of disciplines and procedures to better match coffee cover with customer behaviour which will significantly reduce the Group's exposure to future coffee market volatility.

Strategic report (continued)

Risk management (continued)

Foreign currency fluctuations

Transactional currency exposures

The Group's main markets are concentrated in three different European currency zones (Euro, Sterling and Swiss Franc). In addition, the prices of procured coffees are denominated in US Dollars. Although most operating companies operate within their own currency zone, some of them also have sales or procurement activities in various foreign currencies. As such, the Group deals with transactional foreign currency exposures on a daily basis.

In order to secure business profitability, each transaction denominated in a foreign currency is hedged upon commitment of the transaction. This is achieved either through transaction based hedging or "natural" hedging of currency streams within the Group (see Note 28 - Financial instruments).

Translational currency differences

The Group's balance sheet and profit and loss statement are maintained in Euros, its functional and presentational currency. Differences arising from the translation into Euros are not hedged since these are not related to the conduct of business.

Business interruption

The Group manages any business interruption risk through disaster recovery planning for each of its major manufacturing sites. Each disaster recovery plan addresses where alternative manufacturing capabilities lies within the Group and the practical considerations in transferring production to another region.

Brexit

The United Kingdom (UK) held a referendum on 23 June 2016 voting in favour of leaving the European Union (EU). On 29 March 2017 the British Government tendered its formal notice to withdraw from the EU pursuant to Article 50 of the Lisbon Treaty with an effective date of 29 March 2019. The UK formally left the EU on 31 January 2020 and has entered into a transition period that ends on 31 December 2020.

The principal risk lies where no agreement is reached with the EU, specifically a trade deal, which would bring added risk and complexity to our UK operations include the sourcing of coffee machines; and sales of coffee and machines from our UK operation to customers within the EU, which could also incur duty charges potentially impacting our competitiveness.

The Group has plans in place to mitigate the risk of Brexit where possible including moving manufacture of goods from the UK to other factories within the EU and sourcing coffee machines directly to our warehouses in the EU to avoid import and export tariffs in the UK.

Coronavirus (COVID-19)

The increasing spread of coronavirus globally poses a potential risk to the Group. The virus has touched all corners of the world with governments implementing various containment strategies to curb the spread, in particular lockdown restrictions where social distancing is mandatory and cafes, bars and restaurants are closed. As a result, the virus has impacted the Group through loss of sales to bars, cafes and restaurants and could potentially result in disruption to our supply chain, factory closures and our ability to deliver goods to customers.

Whilst revenues to traditional coffee shops and cafes have decreased as populations are told to remain isolated, this is being somewhat offset by increased sales to retailers as people stockpile their homes

The Group is mitigating the risk of coronavirus to our business through:

- Use of government support schemes such as furloughing of employees that are directly involved in the production and sale of goods and services to customers that are unable to operate due to government lockdown policies and various administrative roles;
- Workers are, and will continue to be checked on arrival to factories prior to admission for high temperatures or any other symptom of COVID-19 to prevent widescale outbreaks; and

Strategic report (continued)

Risk management (continued)

- The Group operates several factories across Europe and disaster recovery plans are in place should a factory close due to an outbreak of coronavirus.

Analysis of 2019 financial performance (business review)

Despite a competitive business environment, UCC Europe Ltd and its subsidiaries generally performed well in 2019 with increases in both Operating Profit and EBITDA compared to last year. The environment is increasingly challenging as competitors continue to acquire smaller competition and as they increase their product offering to match our portfolio. Furthermore there is increasing global focus on sustainability and so we continue to strive to develop sustainable coffee solutions.

Group revenues in 2019 were broadly in line with 2018. Total coffee and tea volumes for the year were broadly in line with 2018 at 67,680 tons (2018: 68,613 tons).

In 2019 the Group adopted IFRS 16 'Leases' which has had a significant impact on both the Group consolidated income statement in 2019. Since 2018 remains as reported (not restated under IFRS 16), this section will refer to 2019 figures before IFRS 16 adjustments to allow for a like-for-like comparison. The table below reconciles the figures in the financial statements and the figures referred to in this section:

<i>EUR (millions)</i>	2019 Reported	IFRS 16 Adjustments	2019 Adjusted
Income Statement			
Gross Profit	121.2	(0.1)	121.1
Operating Profit	21.3	(0.2)	21.1
Profit after tax	12.4	0.3	12.7
EBITDA	56.1	(5.4)	50.7
Balance Sheet			
Total Assets	581.6	(16.7)	564.9
Total Equity	316.1	0.3	316.4
Statement of Cash Flows			
Net cash flow from operating, investing and financing activities	53.2	(10.8)	42.2
Cash interest charges	3.9	(0.2)	3.7

The Group, despite a delay in the installation of certain coffee machines, realized a Gross Profit of €121.1 million, €8.9 million better than 2018, aided by operational efficiencies and favourable rebates. EBITDA⁽¹⁾ for the Group was €50.6 million for 2019, against €44.8 million in 2018.

Operating Profit in 2019 was €21.1 million, a €2.8m increase compared to 2018 (€18.3 million), contributing to net cash flow from operating activities of €43.9 million (€33.6 million in 2018).

Net cash for 2019 ended €32.6 million (€26.8 million 2018) after funding additional capital investment in tangible fixed assets of €21.9 million (€20.1 million in 2018), cash interest charges of €3.7 million (€4.1 million in 2018) and scheduled repayments of loans to group companies of €15.0 million (€15.0 million in 2018). Net cash including the impact of foreign exchange increased by €5.8 million in 2019 (€1.6 million

Strategic report (continued)

Analysis of 2019 financial performance (business review) (continued)

2018). Net cash including the impact of foreign exchange increased by €5.8 million in 2019 (€1.6 million decrease in 2018).

Profit after tax was €12.7 million in 2019 (€11.2 million in 2018).

At 31 December 2019 the Group held assets with a total value of €564.9 million (€564.0 million in 2018), with a total equity of €316.4 million (€300.9 million in 2018). Total loans and borrowings at the balance sheet date total to €108.9 million (€127.5 million in 2018), all of which is provided by the Group's parent company (€123.9 million in 2018).

Section 172(1) statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationship with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

During 2019 the Board undertook a variety of activities to engage with stakeholders:

Approval of the annual budget and three year plan

This year's budget and rolling three year plan were approved by the Board following a comprehensive review of our strategic priorities and risks to our business including business interruption. A key pillar to these plans is the reorganisation of the Group to a regional structure, which will allow us to exploit new markets as well as deeper penetration of our existing markets, as well as the introduction of various committees and governance to improve decision-making. Our plans are demanding but will position the Group well whilst honouring our commitments to our stakeholders. The annual budget and three year plans have been communicated to all employees both digitally and through townhall meetings.

Customers

The Board is constantly receiving feedback from customers through account managers in order to understand their needs and changes in the market as well as working with our customers in order to offer superior products based on the innovations made by our R&D teams. The Board recognise its importance in the supply chain to our customers and strive to ensure we deliver products on time and of the highest quality.

Employees

The Board is committed to both the training and development of employees and the retention of key personnel. During 2019 the Board formed the Group's first central Human Resources team aim at standardising processes across the Group. The budget and three year plan include significant expenditure on Human Resources including further recruitment in this area to support learning and development initiatives for employees. Moreover new projects are in place to develop succession planning in order to support the long term growth of the Group.

Capital expenditure

The Board continues to invest heavily in capital expenditure. A major tool underpinning the change in Group organisation and processes is the implementation of a new Enterprise Resource Planning ('ERP') software which is currently in. The development of the ERP system is being accomplished through the involvement of employees throughout the Group as we come together as one to determine best practice.

Strategic report (continued)

Section 172(1) statement (continued)

The new ERP will ultimately improve internal controls and the tools available for our employees and allow more in-depth analysis functionality which will drive the performance of the Group.

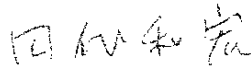
Suppliers/Sustainability and Community

This year the Board took steps through formation of a dedicated department. This team will support the development and implementation of a Group strategy which takes into account the material social, environmental and economic challenges facing our business, our communities and our planet; plus will promote and foster awareness across our group through in-house presentations, capacity building and governance activities.

The Board will continue to invest considerable resource in this area, including the development of new eco-friendly product offerings; reducing our operating site environmental impacts through carbon footprint assessment; and expansion of our responsible and ethical business practices through formation of supply chain policies and due diligence processes. We continue to work closely with our customers to develop innovative and sustainable products and solutions which meet their strategic social and environmental goals.

On behalf of the Board

Kazuhiro Tashiro
Director



24 June 2020

UCC Europe Limited

Registered No. 8016911

Directors' report

The directors present their report and financial statements in respect of UCC Europe Limited and its subsidiaries for the year ended 31 December 2019. UCC Europe Limited is a Company owned by UCC Holdings Co Ltd in Japan.

Principal activities

UCC Europe Limited owns 100% of its directly held subsidiaries.

UCC is involved in manufacturing, marketing and sales of own brand and private label products. UCC also distributes coffee machines and provides related services in the food service and out of home channels.

Group results and dividends

The Group made a profit after tax of €12.4 million (€11.2 million in 2018). The directors do not recommend the payment of a dividend for the current or prior years.

Future developments

Future developments have been commented upon in the Strategic Report set out on pages 2-4.

Research and development

The Group continues to invest in R&D to identify opportunities to develop new and existing products, particularly in regard to capsule technology. Our investment to date in R&D has proved successful as we have been able to extend our product offerings that has enabled us to enter new markets as well as strengthen relationships with existing customers.

Financial instruments

The Group uses forward exchange contracts to hedge exchange rate risks resulting from the purchase of coffee machines. The Group applies hedge accounting for certain cash flow hedges in order to simultaneously recognise both the results from changes in the value of the forward foreign exchange contract and the hedged receivable or payable in the profit and loss account.

The Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk are included in note 28.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Strategic Report and in notes 21 and 28 of the financial statements.

The Group has considerable financial resources, as a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In making this assessment the Directors have also considered the potential impact of the COVID-19 pandemic on Group cash flows and liquidity over the 12 month period from the date of approval of these financial statements. This assessment also takes into account the measures available to the Group to preserve cash and reduce discretionary expenditure during a period when some customers (e.g. hotels, restaurants, cafes) have had to temporarily close their premises as a result of enforcement action by

Directors' report (continued)

Going concern (continued)

governments across Europe, therefore impacting our sales of coffee and coffee machines in certain markets.

Our revised forecasts considered the current government measures in place as well as a gradual lifting of those restrictions over the next 12 months. This scenario assumes the Group's Operating Profit will be significantly lower than the Board's expectations prior to the COVID-19 pandemic. The Directors firmly believe, even if there is a more severe impact through extended periods of customer closure, the Group can maintain sufficient liquidity through i) use of its €55 million credit facility. This is a rolling 12 month facility that has been in place for several years and is not utilised at 31 December 2019. This facility expires on 31 May 2021; ii) Government furlough schemes across Europe and; iii) reduced capital expenditure.

The Directors have concluded that the potential impact of the COVID-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Nevertheless, having assessed the combination of these various options the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

Directors and their interests

The directors of UCC Europe Limited at the date of approving these financial statements for issue are set out on page 1. The directors' interest in the shares of the Company is nil.

Employees

Consultation with employees or their representatives has continued at all levels with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Group as a whole.

Applications for employment by disabled persons are always fully considered bearing in mind the respective aptitudes and abilities of the applicant concerned. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that a person who does not suffer from a disability.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Directors' report (continued)

Subsequent events

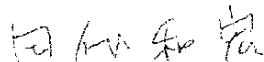
In March 2020, Governments across Europe announced lockdown restrictions including the closure of a portion of our customer base, such as hotels, restaurants and cafes, as part of Government COVID-19 containment plans. The extent of this period of closure and actions by consumers once these have reopened are uncertain, but we already note some countries such as Germany and Switzerland have announced the easing of lockdown restrictions.

Downside scenario forecasting indicates a fall in the Group's Operating Profit in 2020 compared to the Board's expectations prior to development of the COVID-19 pandemic. The impact of these matters on the Group's ability to continue as a going concern is set out in note 2.

Despite the potential reduction in Operating Profit, the Directors do not currently expect an impairment of goodwill, other intangibles, property, plant and equipment and right of use assets based on the projected headroom available. The Group is also witnessing very strong demand from retailers, which partially offsets a fall in demand from Out of Home and machinery sales. Following its enquiries, the directors are also of the opinion that the fall in demand will be recovered as lockdown measures are gradually relaxed.

On behalf of the Board

Kazuniro Tashiro
Director



24 June 2020

Directors' responsibilities statement

The directors are responsible for preparing the Report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the group and company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's and company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of UCC Europe Limited

Opinion

We have audited the financial statements of UCC Europe Limited ('the parent company') and its subsidiaries (collectively referred to as the 'group') for the year ended 31 December 2019, which comprise the group income statement, the group and parent company statements of comprehensive income, the group and parent company balance sheets, the group and parent company statements of changes in equity, the group and parent company statements of cash flows, and the related notes 1 to 34 to the group financial statements and the related notes 1 to 14 to the parent company financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit and parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 to the group financial statements, and note 1 to the parent company financial statements, which explain the impact of Covid-19 and the mitigating actions that could be taken by the group should the impact be more severe than expected.

Due to continuing changes in the external business environment, there is uncertainty over the effectiveness of these mitigating actions, including the continued renewal of the unused credit facility included in note 21 to the group financial statements.

As stated in note 2 to the group financial statements, and note 1 to the parent company financial statements, these events or conditions, along with the other matters set forth indicate that a material uncertainty exists that may cast significant doubt on the group and parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Independent auditors' report (continued)

to the members of UCC Europe Limited

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

Independent auditors' report (continued)

to the members of UCC Europe Limited

conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Zishan Nurmohamed (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

26/06/2020

UCC Europe Limited

Registered No. 8016911

Group income statement

For the year ended 31 December 2019

		2019	2018
	Note	€000	€000
Revenue	5	450,311	454,915
Cost of goods		(329,094)	(342,638)
Gross Profit		121,217	112,277
Administrative expenses	6	(66,101)	(67,427)
Depreciation and amortisation	6	(33,829)	(26,558)
Operating Profit		21,287	18,292
Finance income	8	9	42
Finance costs	8	(3,126)	(4,154)
Profit before tax		18,170	14,180
Income tax expense	10	(5,774)	(3,028)
Profit for the year		12,396	11,152

All transactions are derived from continuing operations.

The accompanying notes are an integral part of the Group financial statements.

UCC Europe Limited

Registered No. 8016911

Group statement of comprehensive income

For the year ended 31 December 2019

		2019	2018
	Note	€000	€000
Profit for the year		12,396	11,152
Other comprehensive (loss) / income:			
Exchange differences:			
Income/(Loss) on translation of foreign operations		4,509	(296)
Cash flow hedge fair value movements	28	(253)	-
Net other comprehensive income / (loss) that may be reclassified to profit or loss in subsequent years		4,256	(296)
Actuarial (loss) gain on defined benefit pension plans due to liability assumption changes	22	(19,870)	477
Return on plan assets higher/(lower) than discount rate on defined benefit pension plans	22	17,950	(275)
Tax effect	10	379	(32)
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent years		(1,541)	170
Total comprehensive income for the year, net of tax		15,111	11,026

The accompanying notes are an integral part of the Group financial statements.

UCC Europe Limited

Registered No. 8016911

Group balance sheet

At 31 December 2019

	Note	2019 €000	2018 €000
Assets			
Non-current assets			
Property, plant and equipment	11	110,032	80,815
Intangible assets	12	302,447	309,791
Investments in associates	14	-	538
Long term receivables	15	1,029	1,085
Deferred tax assets	10	397	759
Total non-current assets		413,815	392,988
Current assets			
Inventories	16	67,774	68,783
Trade and other receivables	17	67,432	75,486
Cash and cash equivalents	18	32,599	26,751
Total current assets		167,805	171,020
Total assets		581,620	564,008
Equity and liabilities			
Equity			
Share capital	19	294,000	294,000
Foreign currency translation reserve	20	(2,145)	(6,634)
Retained earnings	20	28,033	15,637
Other reserves	20	(3,836)	(2,042)
Total equity		316,052	300,941
Non-current liabilities			
Loans and borrowings	21	93,594	108,594
Employee benefit liabilities	22	6,047	4,559
Deferred tax liabilities	10	17,494	17,803
Provisions	23	177	625
Lease liabilities	27	12,125	-
Total non-current liabilities		129,437	131,581
Current liabilities			
Loans and borrowings	21	15,258	18,952
Trade and other payables	24	84,194	87,048
Provisions	23	650	904
Income tax payable		2,349	1,033
Other current liabilities	25	15,675	16,129
Contract liabilities	26	12,788	7,420
Lease liabilities	27	4,955	-
Derivative financial instruments		262	-
Total current liabilities		136,130	131,486
Total equity and liabilities		581,620	564,008

Kazuhiro Tashiro
Director

24 June 2020

田 和 宏

UCC Europe Limited

Registered No. 8016911

Our audit opinion is based on the financial statements of UCC Europe Limited for the year ended 31 December 2019 and is not intended to be used for any other purpose.

Group statement of changes in equity

For the year ended 31 December 2019

	Share capital €000	Foreign currency translation reserve €000	Retained earnings €000	Other reserves €000	Total equity €000
At 31 December 2017	294,000	(6,358)	4,485	(2,212)	289,915
Profit for the year	-	-	11,152	-	11,152
Other comprehensive loss	-	(296)	-	170	(126)
Total comprehensive income	-	(296)	11,152	170	11,026
At 31 December 2018	294,000	(6,654)	15,637	(2,042)	300,941
Profit for the year	-	-	12,396	-	12,396
Other comprehensive income	-	4,509	-	(1,794)	2,715
Total comprehensive income	-	4,509	12,396	(1,794)	15,111
At 31 December 2019	294,000	(2,145)	28,033	(3,836)	316,052

*Other reserves includes cash flow hedging reserve of €(253)k.

UCC Europe Limited

Registered No. 8016911

Group statement of cash flows

For the year ended 31 December 2019

	Note	2019 €000	2018 €000
Operating activities			
Profit before tax		18,170	14,180
Adjustments to reconcile profit before tax to net cash flows			
- Depreciation of property, plant and equipment	11	22,889	15,131
- Amortisation of intangible assets	12	10,940	11,427
- Net finance costs		4,185	4,131
- Loss on disposal of property, plant and equipment		146	52
- Profit on disposal of intangible assets		(71)	-
- Profit on disposal of out of home operation in France		(805)	-
- Movements in non-current liabilities		(605)	(2,322)
- Movements in provisions		(749)	-
Working capital adjustments:			
- Decrease/(Increase) in trade and other receivables		10,026	(604)
- Decrease in inventories		(2,959)	(6,142)
- (Decrease)/Increase in current liabilities		(3,869)	2,184
Cash generated from operations		57,298	28,037
Interest received	8	9	42
Income tax paid		(4,088)	(4,521)
Net cash flows from operating activities		53,219	33,558
Investing activities			
Proceeds from disposal of property, plant and equipment		-	45
Proceeds from sale of investments		670	-
Proceeds from sale of business unit		805	-
Purchase of property, plant and equipment		(21,922)	(20,134)
Purchase of intangible assets	12	(1,080)	(26)
Net cash flows used in investing activities		(21,527)	(20,115)
Financing activities			
Repayment of loans and borrowings		(15,000)	(15,000)
Repayment of lease liabilities		(5,298)	-
Finance costs paid		(3,945)	(4,199)
Net cash flows used in financing activities		(24,243)	(19,200)
Net increase/(decrease) in cash and cash equivalents		7,449	(5,757)
Net foreign exchange difference		2,035	558
Cash and cash equivalents at 1 January		23,115	28,314
Cash and cash equivalents at 31 December		32,599	23,115
Included within cash and cash equivalents	18	32,599	26,751
Included within bank overdraft	21	-	(3,636)
Total cash and cash equivalents		32,599	23,115

UCC Europe Limited

Registered No. 8016911

Notes to the financial statements

at 31 December 2019

1. General information

UCC Europe Limited ("the Company") is a private limited company incorporated and domiciled in England and Wales.

The Company owns, directly or indirectly, investments in the numerous companies involved in activities directly or indirectly related to the manufacture, distribution or sale of coffee, tea, side products and coffee machines.

2. Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the Companies Act 2006.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which are measured at fair value.

The accounting policies which follow set out those policies which apply in preparing the financial statements.

The prevailing exchange-rates at the year-end were £0.846 to €1 and CHF1.087 to €1 (£0.898 to €1 and CHF1.126 to €1 in 2018).

Guarantees

The following UK subsidiaries of the Group are exempt from the requirements of the Companies Act 2006 relating to the audit of accounts by virtue of section 479A of this Act.

The company has provided parent guarantees to these subsidiaries:

<i>Name</i>	<i>Registered number</i>
UCC Coffee UK Holdings Ltd	5785245
UCC Coffee UK Ltd	2159182
UCC Europe Finance Ltd	07704999

The following Irish subsidiary of the Group is exempt from the requirements of the Irish Companies Act 2014 relating to the filing of its own Financial Statements by virtue of section 357 of this Act:

<i>Name</i>	<i>Registered number in Ireland</i>
UCC Coffee Ireland Ltd	610111

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Strategic Report and in notes 21 and 28 of the financial statements.

The Group has considerable financial resources, as a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In making this assessment the Directors have also considered the potential impact of the COVID-19 pandemic on Group cash flows and liquidity over the 12 month period from the date of approval of these financial statements. This assessment also takes into account the measures available to the Group to preserve cash and reduce discretionary expenditure during a period when some customers (e.g. hotels, restaurants, cafes) have had to temporarily close their premises as a result of enforcement action by governments across Europe, therefore impacting our sales of coffee and coffee machines in certain markets.

Our revised forecasts considered the current government measures in place as well as a gradual lifting of those restrictions over the next 12 months. This scenario assumes the Group's Operating Profit will be significantly lower than the Board's expectations prior to the COVID-19 pandemic. The Directors firmly believe, even if there is a more severe impact through extended periods of customer closure, the Group can maintain sufficient liquidity through i) use of its €55 million credit facility. This is a rolling 12 month facility that has been in place for several years and is not utilised at 31 December 2019. This facility expires on 31 May 2021; ii) Government furlough schemes across Europe and; iii) reduced capital expenditure.

The Directors have concluded that the potential impact of the COVID-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Nevertheless, having assessed the combination of these various options the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Basis of consolidation

Subsidiaries

The Group financial statements consolidate the financial statements of UCC Europe Limited and the entities it controls (its subsidiaries) drawn up to 31 December each year.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The financial statements of subsidiaries used in the preparation of the group financial statements are prepared for the same reporting year as the parent undertaking and are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising from them, are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (1) derecognises the assets (including goodwill) and liabilities of the subsidiary; (2) derecognises the carrying amount of any non-controlling interest; (3) derecognises the cumulative translation differences, recorded in equity; (4) recognises the fair value of the consideration received; (5) recognises the fair value of any investment retained; (6) recognises any surplus or deficit in profit or loss; (7) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the parent undertaking and is presented separately within equity in the group balance sheet, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Investment in associates

The Group's interests in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less distributions received and less any impairment in value of individual investments. The group income statement reflects the share of the associate's results after tax.

Any goodwill arising on the acquisition of an associate is included in the carrying amount of the associate and is neither amortised nor individually tested for impairment. To the extent that the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Financial statements of associates are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies used in line with those of the Group. Adjustments are also made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its associates.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Foreign currency translation

The Group's group financial statements are presented in Euros, which is also the parent undertaking's functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency and translated into Euros as indicated below.

i) Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken to other comprehensive income until the disposal of the net investment, at which time they are reclassified from equity to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into euro at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits which exceed one year, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the year in which it is incurred. Costs associated with developing or maintaining computer software are recognised as an expense as incurred unless they increase the future economic benefits of the asset, in which case they are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

The intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible assets.

The intangible assets are amortised over the estimated useful lives, on a straight-line basis, determined as follows:

- Trademarks – 10 to 30 years
- Customers relationships – 11 to 17 years
- Other intangible assets – 6 to 8 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection, maintenance or repair is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

The Group policy states that depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Land and buildings – 25 to 45 years
- Machinery and equipment – 5 to 8 years
- Machines rented out – 3 to 5 years
- Other operating assets – 3 to 8 years
- Right-of-use assets – over the length of the lease term

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement.

Revenue from contracts with customers

Revenue primarily comprises sales of goods and services excluding sales taxes. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and is presented net of rebates due to customers. The Group recognises revenue once it transfers control of a product or service to a customer. The accounting policies applied to the principal revenue generating activities in which the Group is engaged are described in note 5 of the consolidated financial statements.

Volume rebates

The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The most likely amount is used for those contracts with a single volume threshold, while the expected value method is used for those with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the expected future rebates (i.e., the amount not included in the transaction price).

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section 'Financial instruments'.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Dividends

Dividend income is recognised when the Group's right to receive the payment is established.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale only if available for immediate sale in their present condition; a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated or amortised.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

The Group currently recognises dilapidation provisions in respect of leasehold obligations, costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. Where material, cash flows are discounted at a current pre-tax rate that reflects the risks specific to the dilapidation liability. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs of dilapidations are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Leases

Group as a lessee

As explained in Note 4 'Accounting Policies' (New and amended standards and interpretations), the group has changed its policy for leases where the Group is a lessee. The new policy is set out in Note 27.

Until 31 December 2018, assets held under finance leases, which transferred to the Group substantially all the risks and benefits incidental to ownership of the leased item, were capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments were apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases were depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retained a significant portion of the risks and benefits of ownership of the asset were classified as operating leases and rentals payable were charged in the income statement on a straight line basis over the lease term.

Group as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in section 'Revenue from contracts with customers'.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category. The Group has no embedded derivatives.

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired as follows:

Financial assets carried at amortised cost

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs.

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance cost.

This category generally applies to interest-bearing loans and borrowings

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the group balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

iv) Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 28.

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Derivative financial instruments and hedge accounting

i) Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a nonfinancial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows.

Raw materials and consumables are carried at the lower of cost in accordance with the FIFO or average method and market value. In Switzerland local regulation requires the company to hold a quantity of inventory at a prescribed market value. Changes in the value are reported in administrative expenses within profit and loss.

Finished products are valued at cost or at cost of manufacture on the basis of weighted average prices comprising cost of used raw materials and consumables and the other costs directly attributable to manufacture.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the group statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the financial statements

at 31 December 2019

2. Basis of preparation (continued)

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the group to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Pensions and other post-employment benefits

The Group operates defined benefit pension plans in certain European countries, which requires contributions to be made to an administered fund. Benefits are provided on a funded basis. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised in the income statement as they arise.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high-quality corporate bonds, as explained in note 3), less the fair value of plan assets out of which the obligations are to be settled. For the Switzerland Plans, the plan assets consist of qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and, in the case of quoted securities; it is the published bid price. For the Netherlands plans, the plan assets consist of qualifying insurance policies. The market value of the assets is based on the discounted value of the funded insured benefits, using the same discount rate used to determine the liabilities, increase with the amounts available in the indexation depot. This method is in accordance with IAS19.115.

Notes to the financial statements

at 31 December 2019

3. Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the management forecast for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the EBITDA growth rate used. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in note 13.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together.

Further details on taxes are disclosed in note 10.

Pension benefits

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Notes to the financial statements

at 31 December 2019

3. Significant accounting judgements, estimates and assumptions (continued)

Pension benefits (continued)

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details about the assumptions used are provided in note 22.

Revenue from Contracts with Customers

Identifying performance obligations in bundled sales of coffee machines and coffee machine maintenance contracts

The Group provides coffee machine maintenance services that are either sold separately or bundled together with the sale of coffee machines to a customer. The coffee machine maintenance services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer.

The Group determined that both the machine and coffee machine maintenance services are distinct. The fact that the Group regularly sells both machine and maintenance services on a stand-alone basis indicates that the customer can benefit from both products on their own. The Group also determined that the promises to transfer the machine and to provide maintenance services are distinct within the context of the contract. The machine and maintenance services are not inputs to a combined item in the contract. The Group is not providing a significant integration service because the presence of the machine and maintenance services together in this contract do not result in any additional or combined functionality and neither the machine nor the maintenance service modify or customise the other. Consequently, the Group allocated a portion of the transaction price to the machine and the maintenance services based on relative stand-alone selling prices. Further details on revenue are provided in note 5.

Critical judgement in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination periods) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of buildings, the following factors are usually the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If there is a material cost to relocate, the Group is typically reasonably certain to extend (or not terminate).
- If there is a material negative commercial impact of relocating, the Group is typically reasonably certain to extend (or not terminate).

The lease term is reassessed if an option is actually exercised (or not exercised). The assessment of reasonably certain is only revised if a significant event or a significant change in circumstances occurs which affects this assessment.

Notes to the financial statements

at 31 December 2019

3. Significant accounting judgements, estimates and assumptions (continued)

Critical judgement in determining the discount rates in valuation of Right-of-Use assets

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case, the incremental borrowing rate is used based on the rate that would be incurred to borrow the funds for an asset of similar value with similar terms.

4. Accounting policies

New and amended standards and interpretations

The Group applied IFRS 16 *Leases* and the adoption of this new accounting standard is described below.

Certain other new accounting standards, amendments to existing accounting standards and interpretations which are in issue but not yet effective, either do not apply to the Group or are not expected to have any material impact on the Group's net results or net assets:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle: Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 23 Uncertainty over Income Tax Treatments.

IFRS 16 Leases

Upon adoption of IFRS 16, the Group recognised lease liabilities in relation to leases previously classified as operating leases under IAS 17 *Leases*. A lessee is required to:

- Recognise a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application
- Measure the right-of-use asset on a lease by lease basis, at either:
 - Its carrying amount as if IFRS 16 had always been applied since the commencement date, but using a discount rate based on the lessee's incremental borrowing rate at the date of initial application or
 - An amount equal to the lease liability, adjusted for previously recognised prepaid or accrued lease payments.

The Group applied IFRS 16 *Leases* using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method the standard is applied there is no impact on brought forward retained earnings since value of the right-of-use asset is equal to the present value of the remaining lease payments. The new accounting policies are disclosed in Note 27.

The Group applied the following transition practical expedients:

- Applying a single discount rate to a portfolio of leases with similar characteristics
- Relying on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. There were no onerous leases as at 1 January 2019.
- Operating leases with a remaining lease term of less than 12 months as at 1 January 2019 have been accounted for as short term loans
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

Notes to the financial statements

at 31 December 2019

4. Accounting policies (continued)

- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. The Group has relied on its assessment applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease* for contracts entered into before the transition date.

The lease liability recognised as at 1 January 2019 differs to the operating lease commitment note disclosed in the 2018 Financial Statements primarily due to discounting using the incremental borrowing rate at the date of initial application.

5. Revenue from contracts with customers

5.1 Disaggregated revenue information

Revenue is wholly attributable to the principal activity of the Group and arose mainly from the sales of goods from contracts with customers. Revenue recognised in the income statement corresponds to the net sales.

Revenue stream split

	For the year ended 31 December 2019			
	<i>Coffee and Coffee related</i>	<i>Machines</i>	<i>Service</i>	<i>Total</i>
	€000	€000	€000	€000
Coffee	358,596	-	-	358,596
Side products	18,756	-	-	18,756
Machines	-	29,585	-	29,585
Service	-	-	43,374	43,374
Total revenue from contracts	<u>377,352</u>	<u>29,585</u>	<u>43,374</u>	<u>450,311</u>

Geographical split

The Netherlands	58,410	3,672	4,629	66,711
Spain	125,722	3,352	-	129,074
United Kingdom	63,917	20,997	36,451	121,365
Switzerland	50,676	1,497	2,294	54,467
France	47,630	-	-	47,630
Germany	2,482	-	-	2,482
Rest of Europe	28,515	67	-	28,582
Total revenue from contracts	<u>377,352</u>	<u>29,585</u>	<u>43,374</u>	<u>450,311</u>

Timing of revenue recognition

Goods transferred at point in time	377,352	29,585	-	406,937
Services transferred over time	-	-	43,374	43,374
Total revenue from contracts	<u>377,352</u>	<u>29,585</u>	<u>43,374</u>	<u>450,311</u>

Notes to the financial statements

at 31 December 2019

5. Revenue from contracts with customers (continued)

For the year ended 31 December 2018

	<i>Coffee and Coffee related</i> €000	<i>Machines</i> €000	<i>Service</i> €000	<i>Total</i> €000
Coffee	369,854	-	-	369,854
Side products	18,778	-	-	18,778
Machines	-	26,567	-	26,567
Service	-	-	39,716	39,716
Total revenue from contracts	<u>388,632</u>	<u>26,567</u>	<u>39,716</u>	<u>454,915</u>

Geographical split

The Netherlands	64,686	4,754	4,489	73,929
Spain	121,495	-	-	121,495
United Kingdom	66,563	20,306	34,018	120,887
Switzerland	45,931	1,494	1,208	48,633
France	58,992	-	-	58,992
Germany	3,991	-	-	3,991
Rest of Europe	26,974	13	1	26,988
Total revenue from contracts	<u>388,632</u>	<u>26,567</u>	<u>39,716</u>	<u>454,915</u>

Timing of revenue recognition

Goods transferred at point in time	388,632	26,567	-	415,199
Services transferred over time	-	-	39,716	39,716
Total revenue from contracts	<u>388,632</u>	<u>26,567</u>	<u>39,716</u>	<u>454,915</u>

5.2 Contract balances

	2019 €'000	2018 €000
Trade receivables (note 17)	62,138	68,504
Long term receivables (note 15)	1,029	1,085
Contract liabilities (note 26)	(12,788)	(7,420)
	<u>50,379</u>	<u>62,169</u>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

Contract liabilities include long-term advances received to provide coffee machine service maintenance.

Notes to the financial statements

at 31 December 2019

5. Revenue from contracts with customers (continued)

5.3 Performance obligations

Coffee and Coffee-related sales

The performance obligation is satisfied upon delivery of the goods to the customer. Payment from customers is received once delivery of the goods is made.

Coffee machines

The full performance obligation is satisfied upon the successful installation of the coffee machine at the customer premises. Payments from customers can vary with some customers paying in advance of installations while others pay once the machine is installed. Advances from customers are recognised as a contract liability. Where machine installations are completed, the receivable is recognised as an asset or offset against any advance received.

Coffee machines are also sold to customers once a minimum order quantity has been met, with the sale being recognised in line with the sale of coffee beans. In such cases the performance obligation is satisfied upon the order and delivery of the minimum order quantity of coffee beans.

Service maintenance contracts

Service maintenance contracts generally run for a period between one month and one year and for which payment can be received upfront. Revenue is recognised over the course of the contract on a straight-line basis. Revenue recognised corresponds directly with the value to the customer of the Group's performance to date.

Revenue is primarily attributable to the principal activity of the Group and arose exclusively from the sales of goods and rendering of services. Revenue recognised in the income statement corresponds to the net sales.

at 31 December 2019

This is stated after charging/(crediting):

Depreciation and amortisation		
– Depreciation of property plant and equipment (note 11)	22,889	15,131
– Amortisation of intangible assets (note 12)	10,940	11,427
	<u>33,829</u>	<u>26,558</u>

2019	2018
€000	€000

Fees for audit services pursuant to legislation		
— Fees payable for the Parent Company and Group audit		
Total audit fees payable to Ernst & Young LLP for the audit of the Parent company and Group	175	174
Total audit fees payable to Ernst & Young LLP for the audit of other subsidiaries	420	361
Total audit fees payable to other firms	-	-
Total audit fees payable	595	535
Fees payable to Ernst & Young Firms for other services		
— Tax compliance services	50	89
— Tax advisory services	-	14
Total non-audit fees payable	50	103
Total fee payable	645	638

Notes to the financial statements

at 31 December 2019

7. Information regarding key management personnel and employees

Employee costs:

	2019	2018
	€000	€000
Wages and salaries	69,802	67,626
Social security charges	10,140	9,628
Pension costs		
– defined contribution pension plans	2,674	1,456
– defined benefit pension plans (note 22)	(4)	1,937
– defined benefit pension plan curtailment gain (note 22)	-	(2,536)
	<u>82,612</u>	<u>78,111</u>

The average number of employees during the period was 1,559 full time equivalent (1,546 in 2018).

Compensation of key management personnel:

	2019	2018
	€000	€000
Wages and salaries	760	1,896
Social charges	207	93
Pension costs	-	30
Total emoluments	<u>967</u>	<u>2,019</u>

Key management personnel are the UCC Europe directors and Group CEO. (2018: UCC Europe directors, Group CEO, Group FC, former Group COO and former Group CFO). Directors' emoluments for the year were €703 thousand (€362 thousand in 2018). Emoluments in respect to the highest paid director were €381 thousand (€267 thousand in 2018).

Compensation of directors:

	2019	2018
	€000	€000
Wages and salaries	659	362
Social charges	44	-
Pension costs	-	-
Total emoluments	<u>703</u>	<u>362</u>

Notes to the financial statements

at 31 December 2019

8. Net finance costs

	2019 €000	2018 €000
Finance income	9	42
Total finance income	9	42
Finance costs		
Interest payable		
– on shareholders loans	(3,320)	(3,740)
– on debts owed to credit institutions	(363)	(369)
– on lease liabilities	(449)	-
– other	(62)	(64)
Net foreign exchange gain on financing activities	1,068	19
Total finance costs	(3,126)	(4,154)
Net finance costs	(3,117)	(4,112)

The other finance costs mainly concern bank and commitment fees.

9. Share of associates' post tax results

The Group's share of post-tax results of associates was a profit of €Nil (€Nil in 2018). The aggregate income statement balances of associates are indicated below.

	2019 <i>Total associates' results</i> €000	2019 <i>Group's share</i> €000	2018 <i>Total associates' results</i> €000	2018 <i>Group's share</i> €000
Revenue	-	-	-	-
Operating profit	-	-	-	-
Net finance income	-	-	-	-
Profit before tax	-	-	-	-
Income tax	-	-	-	-
Profit for the period	-	-	-	-

Details of the Group's interests in associates are included in note 14.

at 31 December 2019

Tax expense in the income statement

Tax relating to items charged or credited to other comprehensive income:

Reconciliation of the total tax expense

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 19% (19% in 2018). The differences are reconciled below:

	2019 £000	2018 £000
Profit before taxation	18,170	14,180
Tax calculated at UK standard rate of corporation tax of 19% (2018: 19%)	3,452	2,694
— Income not taxable for tax purposes	(378)	(578)
— Expenses not deductible for tax purposes	189	192
— Change in tax laws and rates	377	(774)
— Tax losses unrecognised	1,315	1,352
Adjustments recognised in the period for current tax of prior periods	442	(105)
— Local tax suffered	162	166
— Effect of higher tax rates on overseas earnings	215	81
Total tax expense reported in income statement	5,774	3,028

Notes to the financial statements

at 31 December 2019

10. Income tax expense (continued)

Movement in deferred tax on the balance sheet

	€000	€000
	Assets	Liabilities
Deferred tax		
Closing balance 31 December 2017	10,242	27,937
Reclassification	1,747	1,747
Addition/charge to the result	(3,673)	(4,490)
Addition/charge to the OCI	(32)	-
Exchange rate differences	31	165
Closing balance 31 December 2018	8,315	25,359
Addition/charge to the result	34	205
Addition/charge to the OCI	379	-
Exchange rate differences	88	439
Closing balance 31 December 2019	8,816	26,003
Total deferred tax assets and liabilities	8,816	26,003
As presented in the balance sheet	307	17,494

Deferred tax assets and liabilities that arise in the same taxation authority are netted on the face of the balance sheet. €8,509 thousand (€7,556 thousand in 2018) were reclassified from deferred tax assets to deferred tax liabilities resulting in deferred tax asset of €307 thousand (€759 thousand in 2018) and deferred tax liabilities of €17,494 thousand (€17,803 thousand in 2018)

	2019 €000	2018 €000
Assets		
Tax losses	5,636	5,368
Pension	1,132	855
Goodwill, provision and decelerated capital allowance	2,048	2,092
	8,816	8,315
Liabilities		
Intangible assets fair value allocation derived from UCC acquisition	18,727	20,240
Tangible assets	3,045	3,255
Other assets	4,231	1,864
	26,003	25,359

The Group tax losses carried forward where the certainty of utilisation is remote are not capitalised. The total amount is €39 million (€32 million in 2018). The provision for deferred tax on temporary differences as at 31 December 2019 was calculated at the rate at which it is expected to reverse based on the relevant country rate enacted and substantively enacted at the balance sheet date.

The main rate of corporation tax for the year to 31 December 2019 was 19%. The corporation tax rate was due to reduce to 17% with effect from 1 April 2020. However, at the Budget on 11 March 2020 it was announced that the rate of corporation tax will remain at 19%. As substantive enactment of the 19% corporation tax rate is after the balance sheet date, the deferred tax balances provided in these financial statements reflect the enacted rate of 17%. For future reporting dates after the enactment of the Finance Bill 2020, the deferred tax balances provided are expected to increase by €400k, and will be reflected in the financial statements for the year ended 31 December 2020

Notes to the financial statements

at 31 December 2019

11. Property, plant and equipment

	<i>Machinery and equipment</i>	<i>Land and building</i>	<i>Machines rented out</i>	<i>Other operating assets</i>	<i>Right of use assets</i>	<i>Total</i>
	€000	€000	€000	€000	€000	€000
Cost or valuation:						
31 December 2017	75,836	13,436	29,113	17,432	-	135,817
Additions	8,022	925	6,420	4,955	-	20,322
Disposals	(181)	-	(1,606)	(81)	-	(1,868)
Reclassifications	2,230	1,097	(124)	(3,383)	-	(180)
Fully depreciated items	-	-	(1,492)	-	-	(1,492)
Exchange differences	204	-	(46)	(44)	-	114
31 December 2018	86,111	15,458	32,265	18,879	-	152,713
Transition adjustment	-	-	-	-	17,829	17,829
Additions	3,125	2,008	7,898	10,809	3,702	27,542
Disposals	(1,397)	-	(3,043)	(121)	-	(4,563)
Reclassifications	4,586	-	5,929	(4,604)	-	5,911
Exchange differences	682	-	727	462	658	2,529
31 December 2019	93,107	17,466	43,774	25,425	22,189	201,961
Depreciation and impairment:						
31 December 2017	(33,376)	(3,206)	(16,332)	(6,986)	-	(59,900)
Depreciation charge for the year	(7,994)	(665)	(5,259)	(1,213)	-	(15,131)
Disposals	122	-	1,602	47	-	1,771
Reclassifications	-	(5)	-	5	-	-
Fully depreciated items	-	-	1,492	-	-	1,492
Exchange differences	(181)	-	28	23	-	(130)
31 December 2018	(41,429)	(3,876)	(18,469)	(8,124)	-	(71,898)
Depreciation charge for the year	(9,011)	(737)	(6,720)	(1,114)	(5,307)	(22,889)
Disposals	959	-	2,980	121	-	4,060
Reclassifications	-	12	(12)	-	-	-
Exchange differences	(451)	1	(353)	(299)	(100)	(1,202)
31 December 2019	(49,932)	(4,600)	(22,574)	(9,416)	(5,407)	(91,929)
Net book value:						
At 31 December 2019	43,175	12,866	21,200	16,009	16,782	110,032
At 31 December 2018	44,682	11,582	13,796	10,755	-	80,815

'Other operating assets' relate to motor vehicles, fixtures & fittings and any fixed assets on order.

Depreciation charge has been fully charged within the operating profit.

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12. Intangible assets

	Goodwill €000	Brand, Trademarks, Customer relationships, Recipes, Distributor relationships €000	Software, Concessions, Patents €000	Total €000
Cost of valuation:				
31 December 2017	237,565	192,131	2,501	432,197
Additions	-	-	26	26
Disposals	-	-	-	-
Reclassification from Property, plant and equipment	-	-	26	26
Exchange differences	-	1,253	27	1,280
31 December 2018	237,565	193,384	2,580	433,529
Additions	-	-	1,080	1,080
Disposals	-	-	(92)	(92)
Reclassification from Property, plant and equipment	-	-	18	18
Exchange differences	-	5,215	81	5,296
31 December 2019	237,565	198,599	3,667	439,831
Amortisation and impairment:				
31 December 2017	(34,200)	(75,699)	(2,073)	(111,972)
Amortisation charge for the year	-	(11,282)	(145)	(11,427)
Disposals	-	-	-	-
Exchange differences	-	(317)	(22)	(339)
31 December 2018	(34,200)	(87,298)	(2,240)	(123,738)
Amortisation charge for the year	-	(10,813)	(127)	(10,940)
Disposals	-	-	92	92
Exchange differences	-	(2,722)	(76)	(2,798)
31 December 2019	(34,200)	(100,833)	(2,351)	(137,384)
Net book value:				
At 31 December 2019	203,365	97,766	1,316	302,447
At 31 December 2018	203,365	106,086	340	309,791

Trademarks comprise the Group's trade names for €21.5 million (€22.2 million in 2018). Customer relationships amount to €76.2 million (€83.4 million in 2018) and Recipes and Distributor relationships amount to €0.1 million (€0.5 million in 2018).

Notes to the financial statements

at 31 December 2019

13. Allocation of Goodwill to cash generating units and impairment review

Goodwill acquired through business combinations and licences with indefinite lives have been allocated at the acquisition date to the following cash generating units ("CGUs") for impairment testing as follows:

- United Kingdom ("UK") CGU
- Netherlands ("NL") CGU
- Spain CGU
- Switzerland ("Swiss") CGU

The NL CGU includes Rest of Europe and Germany and the Spain CGU includes Portugal, being the lowest level within the Group at which goodwill is monitored for internal management purposes

Carrying amount of goodwill allocated to each of the CGUs:

Cash Generating Units	2019		2018	
	2019 impairment	carrying amount after impairment	2018 impairment	carrying amount after impairment
	€000	€000	€000	€000
UK	-	67,405	-	67,405
NL	-	72,215	-	72,215
Spain	-	41,659	-	41,659
Swiss	-	22,086	-	22,086
Total	-	203,365	-	203,365

In September 2019, the Group performed its annual impairment test based on the key assumptions described in the paragraph hereunder. No impairment was identified in the current and prior years.

Key assumptions used in value in use calculations

Key assumptions used in the calculation of value in use are EBITDA growth rate, discount rates and the growth rate used to extrapolate cash flows beyond the budgeted period. The values assigned to the key assumptions represented management's assessment of the future development of the business along with the future trends in the European coffee industry.

- The discount rates are a pre-tax measure estimated based on past experience, and an industry average weighted average cost of capital.
- Three years of cash flows were included in the discounted cash flow model based on financial budgets approved by management from the group strategic plan covering a three-year period. Management determined budgeted pre-tax cash flows based on past performance and its expectations of market development.

Growth rate estimates used to determine cash flows beyond the budget period decrease on a straight-line basis to arrive at the long-term GDP rate of 2% used beyond 2024.

at 31 December 2019

Key assumptions used in value in use calculations

Sensitivity to changes in assumptions

2019:

2018:

	<i>Decrease in EBITD:4 growth rate</i>	<i>Increase in annual discount rate</i>
<i>CGU</i>		
UK	(5.3)%	2.2%
Switzerland	(8.8)%	2.9%
Spain	(10.1)%	6.9%
NL	(4.9)%	1.6%

In the event the CGUs forecasts are negatively affected by changes in the economic environment, management is able to mitigate the impact through delaying discretionary expenses such as marketing or personnel bonus, improving working capital cash flow and reviewing the capital expenditure plan. This would allow the CGU to meet its original targets.

Notes to the financial statements

at 31 December 2019

14. Investments in associates

At 31 December 2018, the Group, through its subsidiary Smit & Dorlas Koffiebranders BV, held 30% of the ordinary share capital of Kaldi B.V.. Kaldi B.V. is a private entity incorporated in The Netherlands and is active in the coffee industry. On 10 July 2019, Smit & Dorlas Koffiebranders BV disposed of its 30% shareholding for €0.5m at no gain or loss.

The aggregate assets and liabilities of Kaldi B.V. and the Group's share included in the comparative financial information are set-out below:

	<i>Total associates' net assets</i>	<i>Group's share</i>	<i>Total associates' net assets</i>	<i>Group's share</i>
	<i>2019</i>	<i>2019</i>	<i>2018</i>	<i>2018</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>	<i>€000</i>
Non-current assets	-	-	1,180	357
Current assets	-	-	997	299
Current liabilities	-	-	(392)	(118)
Net assets	-	-	1,794	538

15. Long term receivables

Long term receivables arise from the sale of coffee equipment in The Netherlands, which are paid by instalments.

16. Inventories

	<i>2019</i>	<i>2018</i>
	<i>€000</i>	<i>€000</i>
Raw materials and consumables	22,125	21,873
Finished goods	40,255	41,255
Goods to be received	5,394	5,655
Total inventories	<u>67,774</u>	<u>68,783</u>

Inventories include provisions for slow moving items amounting to €1.6 million (€2.0 million in 2018).

17. Trade and other receivables

	<i>2019</i>	<i>2018</i>
	<i>€000</i>	<i>€000</i>
Trade receivables	62,138	68,504
Prepayments and accrued income	4,093	5,074
VAT	480	1,016
Other receivables	721	892
	<u>67,432</u>	<u>75,486</u>

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17. Trade and other receivables (continued)

Trade receivables are non-interest bearing and are shown net of a provision for expected credit losses.

The fair value of trade receivables and other receivables approximates to the book values shown above.

The Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected losses are based on the historic credit losses adjusted for forward-looking information on macroeconomic factors affecting the ability of the customers to settle receivables. On that basis, the loss allowance as at 31 December 2019 was determined as follows for trade receivables:

	2019 €000	2018 €000
Opening balance	1,902	2,157
Charge for the period	79	209
Amounts written off	(242)	(461)
Foreign exchange difference	28	(3)
Closing balance	1,767	1,902

Expected credit losses of trade receivables, including write offs and allowances, charged during the year is included as part of other operating expenses. Amounts charged to the loss allowance are written off when there is no expectation of recovering further payment.

As at 31 December 2019, trade and other receivables of €12.5 million (€14.3 million in 2018) were past their contractual payment date. The analysis of trade receivables that were past due is as follows:

	Total €000	Not due €000	Past due			
			< 30 days €000	31–90 days €000	91–120 days €000	> 120 days €000
2019	63,904	51,434	7,504	2,027	392	2,547
2018	70,406	56,071	7,753	2,349	541	3,692

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

Approximately 35% (30% in 2018) of the carrying amounts of the receivables were denominated in Sterling. If the Euro exchange-rate relative to Sterling had strengthened by 10% at 31 December 2019, this would impact the foreign exchange gain recognised in the income statement by €2.5 million (€1.9 million in 2018).

6% (7% in 2018) of the carrying amounts of the trade receivables were denominated in Swiss Francs. If the Euro exchange-rate relative to Swiss Francs had strengthened by 10% at 31 December 2019, this would impact the foreign exchange gain recognised in the income statement by €0.5 million (€0.4 million in 2018).

18. Cash and cash equivalents

	2019 €000	2018 €000
Cash at banks and on hand	32,599	26,751
	<u>32,599</u>	<u>26,751</u>

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at 31 December 2019

18. Cash and cash equivalents (continued)

Cash at banks earn interest at floating rates based on daily bank deposit rates. Cash equivalents mainly comprise short-term money market deposits with an original maturity of three months or less, and earn interest at the respective short-term deposit rate.

The carrying value of cash and cash equivalents approximates their fair value.

For the purpose of the Group cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2019	2018
	€000	€000
Cash and cash equivalents	32,599	26,751
Net cash and cash equivalents	<u>32,599</u>	<u>26,751</u>

19% (58% in 2018) of the cash and cash equivalents are denominated in Swiss Francs. If the Euro exchange-rate relative to Swiss Francs had strengthened by 10% at 31 December 2019, this would impact the foreign exchange gain recognised in the income statement by circa €0.7 million (€1.2 million in 2018).

Approximately 70% (83% in 2018) of the amounts of the cash and cash equivalents are denominated in Sterling. If the Euro exchange-rate relative to Sterling had strengthened by 10% at 31 December 2019, this would impact the foreign exchange gain recognised in the income statement by €2.5 million (€1.7 million in 2018).

19. Authorised and issued capital

	Thousands	€000
Authorised shares		
Ordinary shares of €1 each at 31 December 2019 and 31 December 2018	<u>294,000</u>	<u>294,000</u>

The shares have full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

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20. Reserves

	Share capital €000	Foreign currency translation reserve €000	Retained earnings €000	Other reserves €000	Total reserves €000
31 December 2017	294,000	(6,358)	4,485	(2,212)	289,915
Actuarial gain on defined benefit pension plans (net of tax)	-	-	-	170	170
Exchange differences on translation of foreign operation (net of tax)	-	(296)	-	-	(296)
Profit for the year	-	-	11,152	-	11,152
31 December 2018	294,000	(6,654)	15,637	(2,042)	300,941
Actuarial losses on defined benefit pension plans (net of tax)	-	-	-	(1,541)	(1,541)
Movements in cash flow hedge	-	-	-	(253)	(253)
Exchange differences on translation of foreign operation (net of tax)	-	4,509	-	-	4,509
Profit for the year	-	-	12,396	-	12,396
31 December 2019	294,000	(2,145)	28,033	(3,836)	316,052

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Other reserves

The other reserves reflect the comprehensive income (excluding the foreign currency translation differences) relating to actuarial losses on pension and movements in cash flow hedges.

21. Loans and borrowings

	2019 €000	2018 €000
Current		
Shareholders loan	15,000	15,000
Bank overdraft	-	3,636
Accrued interest	258	316
	<u>15,258</u>	<u>18,952</u>
Non-current		
Shareholders loan	93,594	108,594
	<u>93,594</u>	<u>108,594</u>

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at 31 December 2019

21. Loans and borrowings (continued)

Shareholders loan

The loan, with original value of €198.6 million, has a maturity date of 2020 and is repaid in instalments of €7.5 million every six months starting from 31 May 2014. The loan repayments have been extended to 2026 and will continue to be repaid in instalments of €7.5 million every 6 months. The balance will be settled on the last day of the term. Interest for the next year is 2.8% per annum (2.8% in 2018).

Credit facility

UCC Europe Limited has an uncommitted credit facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd of €20 million. The facility was agreed in 2014 and is renewed annually every May for the following 12 months. This credit facility was not utilised as of 31 December 2019 (not utilised as of 31 December 2018). The facility will expire on 31 May 2020.

Since 31 December 2014, UCC Europe Finance Limited held an uncommitted multicurrency overdraft facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd. The facility is renewed annually every May for the following 12 months. The current facility limit available for UCC Europe Finance Limited is €35 million which was not utilised at 31 December 2019 (€3.6m at 31 December 2018). The overdraft interest is based on the banks own costs using the Libor index as reference, plus 75 basis points. The expiry date is 31 May 2020.

All the UCC Europe Group credit facilities are guaranteed by UCC Holdings Co., Limited.

Notes to the financial statements

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22. Pensions and other post-employment benefit plans

The Group operates defined benefit pension arrangements in Europe. These comprise both defined benefit schemes and defined contribution schemes. The principal defined benefit pension schemes are Switzerland Plans and The Netherlands Plans as disclosed in this note. The defined benefits schemes are accounted for in accordance with IAS 19.

In Switzerland the company sponsors three pension plans. All plans are funded and have different benefits and contribution definitions. The basic design is however similar in all plans. The retirement benefit is based on an individual savings account and is converted to an annuity at retirement. The annuity rate is defined in the plan. The plan has a guaranteed rate of return. The survivor and disability benefits of active employees are defined as a percentage of salary. The pension plans are not independent company plans and are affiliated to collective foundations. The assets are managed by the collective foundations. For pension accounting purposes these plans are considered as defined benefit plans.

The liabilities arising in the defined benefit plans are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method. For Switzerland, the aggregate plan amounts are used.

In the Netherlands the company provides average pay pension plans to its employees. The plans were funded through separate investment deposits until 31 December 2015. The plans are funded via qualifying insurance policies at the pension insurer from 1 January 2016. From 1 January 2019 the Netherlands pension plan has been closed to future accrual.

The amounts recognised in the income statement are as follows:

	Switzerland Plans 2019 €000	The Netherlands Plans 2019 €000	Total 2019 €000
Current service cost	(1,013)	-	(1,013)
Past service gain	1,060	-	1,060
Interest cost on benefit obligation	(38)	(5)	(43)
Net benefit expense (note 7)	9	(5)	4
Actual return on plan assets	6,937	12,271	19,208

The above charges are recognised in the income statement partly within the Cost of goods and partly within the indirect wages and salaries in Administrative expenses.

Notes to the financial statements

at 31 December 2019

22. Pensions and other post-employment benefit plans (continued)

The amounts recognised in the income statement in 2018 were as follows:

	Switzerland Plans 2018 €000	The Netherlands Plans 2018 €000	Total 2018 €000
Current service cost	(946)	(815)	(1,761)
Interest cost on benefit obligation	(35)	(36)	(71)
Administrative expenses	-	(105)	(105)
	(981)	(956)	(1,937)
Curtailment gain	-	2,536	2,536
Net benefit (expense)/income (note 7)	(981)	1,580	599

Actual return on plan assets

387 574

The curtailment gain of €2.5m refers to the Netherlands plan that was closed to future accrual.

The amounts of defined benefit liabilities recognised in the balance sheet are as follows:

	Switzerland Plans 2019 €000	The Netherlands Plans 2019 €000	Other Plans 2019 €000	Total €000
Present value of wholly or partly funded pension obligations	28,239	70,959	-	99,198
Fair value of plan assets	(22,842)	(70,704)	-	(93,546)
Net value of pension obligations of other plans	-	-	395	395
Net defined benefit liability	5,397	255	395	6,047

The amounts of defined benefit liabilities recognised in the 2018 balance sheet are as follows:

	Switzerland Plans 2018 €000	The Netherlands Plans 2018 €000	Other Plans 2018 €000	Total €000
Present value of wholly or partly funded pension obligations	18,076	59,889	-	77,965
Fair value of plan assets	(14,099)	(59,632)	-	(73,731)
Net value of pension obligations of other plans	-	-	325	325
Net defined benefit liability	3,977	257	325	4,559

Other Plans mainly relate to accruals for termination benefits to be paid in France.

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22. Pensions and other post-employment benefit plans (continued)

The movements in the present value of the defined benefit obligation are as follows:

	Switzerland Plans €'000	The Netherlands Plans €'000	Total €'000
Defined benefit obligation at 31 December 2017	16,418	61,641	78,059
Interest costs	150	1,158	1,308
Current service cost	946	815	1,761
Benefits paid	18	(821)	(803)
Remeasurements:			
– Actuarial gains from changes in financial assumptions*	(31)	(611)	(642)
– Experience (gains)/losses*	(78)	243	165
Curtailment gain	-	(2,536)	(2,536)
Foreign exchange differences	653	-	653
Defined benefit obligation at 31 December 2018	<u>18,076</u>	<u>59,889</u>	<u>77,965</u>
Interest costs	174	1,127	1,301
Current service cost	1,013	-	1,013
Past service gain	(1,060)	-	(1,060)
Benefits paid	406	(1,168)	(762)
Remeasurements:			
– Actuarial losses from changes in financial assumptions*	785	-	785
– Experience losses*	7,974	182	8,156
– Financial assumption losses*	-	10,929	10,929
Foreign exchange differences	871	-	871
Defined benefit obligation at 31 December 2019	<u>28,239</u>	<u>70,959</u>	<u>99,198</u>

*Total Actuarial (loss)/gain on defined benefit pension plans due to liability assumption changes of (19,870,000) (2018: 477,000) comprises these items.

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22. Pensions and other post-employment benefit plans (continued)

The movements in funded scheme assets are as follows

	Switzerland Plans €000	The Netherlands Plans €000	Total €000
Fair value of plan assets at 31 December 2017	12,527	59,069	71,596
Interest income	113	1,122	1,235
Contributions paid into the plan	661	915	1,576
Benefits paid out	18	(926)	(908)
Actuarial (loss)/gain	273	(548)	(275)
Foreign exchange differences	507	-	507
Fair value of plan assets at 31 December 2018	14,099	59,632	73,731
Interest income	136	1,122	1,258
Contributions paid into the plan	701	(31)	670
Benefits paid out	406	(1,168)	(762)
Actuarial gains	6,801	11,149	17,950
Foreign exchange differences	699	-	699
Fair value of plan assets at 31 December 2019	22,842	70,704	93,546

The major categories of plan assets in the plans in Switzerland are in fixed income bonds 37% (2018: 39%), real estate 29% (2018: 29%) and equities 22% (2018: 21%).

100% of plan assets in the plans in The Netherlands are non-quoted securities (insurance contracts) (2018: 100%).

The overall expected rate of return on assets is determined based on the market expectations prevailing, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

The principal actuarial assumptions (weighted to reflect individual scheme differences) used in the following principal countries are as follows:

	Switzerland Plans 2019 %	The Netherlands Plans* 2019 %	Switzerland Plans 2018 %	The Netherlands Plans 2018 %
Discount rates	0.4	1.1	1.0	1.9
Future salary increases	1.0	-	1.0	1.8
General inflation	1.0	-	1.0	1.8

*Future pension and salary increase of 0 refers to a plan closed for future accrual.

Post retirement mortality for pensioners within the plan in Switzerland at the age of 65 is 22.1 years for male (22.1 years in 2018) and 25.2 years for female (25.2 years in 2018).

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22. Pensions and other post-employment benefit plans (continued)

Valuation of post retirement schemes involves judgments about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation and the impacts may offset to some extent.

As for the Switzerland plans, the impact on net defined benefit obligation is:

	2019		2018	
	1% Increase	1% Increase	1% Increase	1% Decrease
	€000	€000	€000	€000
Discount rate	5,129	5,511	2,596	2,774
Salary growth rate	677	594	530	464
Pension growth rate	2,787	2,281	2,145	1,763

In The Netherlands plans, the impact on net defined benefit obligation is:

	2019	2018
	Variation	Variation
	€000	€000
Discount rate (0.5% reduction on assumption used)	8,305	6,709

The group uses collective arrangements to manage the pension plans. This is the best and practically only available possibility to manage the longevity and investment risk, considering the size of the Group in Switzerland.

In 2020, the Group expects to contribute €0.8 million to its defined benefit pension plans in Switzerland and €nil to its defined benefit pension plans in The Netherlands.

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22. Pensions and other post-employment benefit plans (continued)

The weighted average duration of the defined benefit obligation is 26.0 years (26.0 years in 2018) and the expected maturity analysis of pension obligations is as shown in the table below:

	<i>Less than 1 year</i>	<i>Between 1 and 2 years</i>	<i>Between 2 and 5 years</i>	<i>Greater than 5 years</i>	<i>Total</i>
	€000	€000	€000	€000	€000
2019	3,690	3,746	12,247	79,515	99,198
2018	2,726	2,797	8,811	63,631	77,965

23. Provisions

	<i>Litigation</i>	<i>Other provisions</i>	<i>Total</i>
	€000	€000	€000
31 December 2017	27	1,585	1,612
Arising during the year	103	-	103
Utilisation during the year	-	(171)	(171)
Exchange rate differences impact	-	(15)	(15)
31 December 2018	130	1,399	1,529
Arising during the year	50	-	50
Utilisation during the year	(3)	(803)	(806)
Exchange rate differences impact	-	54	54
31 December 2019	177	650	827
 2019 Current	-	650	650
2019 Non-current	177	-	177
	177	650	827
 2018 Current	130	774	904
2018 Non-current	-	625	625
	130	1,399	1,529

Litigation

The provision concerns litigation costs to be incurred.

Other provisions

The amount covers cost for leased offices dilapidations.

Notes to the financial statements

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24. Trade and other payables

	2019	2018
	€000	€000
Trade payables	79,147	81,510
Payable to Capex creditors	2,995	1,434
VAT payable	1,136	784
Other payables	916	3,320
	<u>84,194</u>	<u>87,048</u>

Trade payables are non-interest bearing.

There is no material difference between the above amounts for trade and other payables and their fair value due to the short-term duration of the majority of trade and other payables.

Approximately 17% of the carrying amounts of the trade and other payables (excluding VAT) were denominated in Sterling (19% in 2018). If the Euro exchange-rate relative to Sterling had weakened by 10% at 31 December 2019, this would impact the foreign exchange gain recognised in the income statement by €1.5 million (€1.8 million in 2018).

17% of the carrying amounts of the trade and other payables (excluding VAT) were denominated in Swiss Francs (15% in 2018). If the Euro exchange-rate relative to Swiss Francs had weakened by 10% at 31 December 2019, this would impact the foreign exchange loss recognised in the income statement by €1.5 million (€1.4 million in 2018).

25. Other current liabilities

	2019	2018
	€000	€000
Accrued expenses and other current liabilities	7,278	7,250
Commission to third parties	4,037	4,649
Bonus to employees	2,368	1,850
Wage tax	1,027	1,416
Social security contributions	965	964
	<u>15,675</u>	<u>16,129</u>

26. Contract liabilities

	2019	2018
	€000	€000
Advances for service maintenance contracts	12,312	7,420
Advances relating to equipment installations	435	-
Advances -- other	41	-
	<u>12,788</u>	<u>7,420</u>

Notes to the financial statements

at 31 December 2019

26. Contract liabilities (continued)

	2019 €000	2018 €000
At 1 January	7,420	-
Transferred from "Other current liabilities"	-	6,400
Deferred during the year	12,096	7,469
Recognised as revenue during the year	(7,322)	(6,369)
Foreign exchange differences	594	(80)
At 31 December	12,788	7,420

The increase in contract liabilities is driven by an increase in deferred service revenue during the year.

27. Leases

a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019 €000
Right-of-use assets (Note 11)	
Machinery and equipment	559
Land and buildings	12,358
Machines rented out	319
Other operating assets	3,546
	<u>16,782</u>
Lease liabilities	
Current	4,955
Non-Current	12,125
	<u>17,080</u>

b) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2019 €000
Depreciation charge on right-of-use assets	
Machinery and equipment	277
Land and buildings	2,620
Machines rented out	94
Other operating assets	2,316
	<u>5,307</u>
Expense relating to short-term leases	682
Expense relating to low value assets that are not shown as short-term assets above	103
Expense relating to variable lease payments that are not included within lease liabilities	324
The total cash outflow for leases in 2019 was €5.3m.	

Notes to the financial statements

at 31 December 2019

27. Leases (continued)

c) The Group's leasing activities and how they are accounted for

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically for fixed periods of 1 month to 5 years but may have options to extend the lease as described in e) below.

Contracts may contain lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments less any lease incentives receivable
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for termination of the lease if the Group is reasonably certain to incur this.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which is not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measure of the lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful economic life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the value of the right-of-use asset is depreciated over the asset's useful economic life.

Payments for short-term leases and low value assets are recognised on straight line basis as an expense in profit or loss. Short term leases are leases with a term of 12 months or less, typically for warehouses and machinery, whereas low value assets typically comprise of IT equipment.

Notes to the financial statements

at 31 December 2019

27. Leases (continued)

d) Variable lease payments

Some leases contain variable lease payments, typically property leases that include service charges and car leases including insurance costs.

e) Extension and termination options

Extension and termination options are included in several property leases across the Group and are exercisable by the Group.

d) Impact of IFRS 16 on consolidated financial statements

The table below shows the impact of IFRS 16 on the consolidated financial statements:

<i>EUR (millions)</i>	2019 Reported	IFRS 16 Adjustments	2019 Adjusted
Income Statement			
Gross Profit	121.2	(0.1)	121.1
Operating Profit	21.3	(0.2)	21.1
Profit after tax	12.4	0.3	12.7
EBITDA	56.1	(5.4)	50.7
Balance Sheet			
Total Assets	581.6	(16.7)	564.9
Total Equity	316.1	0.3	316.4
Statement of Cash Flows			
Net cash flow from operating, investing and financing activities	53.2	(10.8)	42.2
Cash interest charges	3.9	(0.2)	3.7

28. Financial instruments

The majority of the Groups financial instruments are basic financial instruments and loans & borrowings, which are measured at amortised cost. Investments are included in the Company financial statements and are measured at cost less impairment. The Group carries derivative financial instruments at fair value.

Financial instruments measured at fair value in the financial statements require disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Level 1 – the fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period;
- Level 2 – the fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2; and
- Level 3 – if one or more of the observable inputs is not based on observable market data, the instrument is included in level 3.

The Group holds one level 2 financial instrument in 2019 (2018: nil) which is set-out further in this note. The financial instrument is level 2 as its fair value is determined based on techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Notes to the financial statements

at 31 December 2019

28. Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no exposure to the risk of changes in market interest rates as it has no long-term debt obligations with floating interest rates.

Foreign currency risk

The Group's main markets are concentrated in three different European currency zones (Euro, Sterling and Swiss Franc). In addition, the prices of procured coffees are denominated in US Dollars. Although most operating companies operate within their own currency zone, some of them also have sales or procurement activities in various "foreign" currencies. As such, the Group is exposed to transactional foreign currency exposures on a daily basis.

In order to secure business profitability, each transaction denominated in a foreign currency is hedged upon commitment of the transaction. This is achieved either through transaction based hedging or "natural" hedging of currency streams within the Group.

The Group uses forward currency contracts (level 1) to mitigate exposures primarily arise from inventory purchases denominated in CHF, with such contracts designed to cover exposures ranging from one month to one year. At 31 December 2019, the total notional principal amount of outstanding currency contracts was €16.6 million (2018: €Nil) and had a fair value of €0.3 million liability (2018: €Nil). Foreign exchange contracts are sensitive to movements in foreign exchange rates and can be analysed in comparison to year end rates (assuming all other variables remain constant) as follows:

	2019	2018
	€000	€000
Effect on total equity		
-- 10% movement in CHF rate	2,107	-

Credit risk

Although the Group supplies coffee to a limited number of large retail organisations per country, the concentration risk in trade accounts receivable is reduced by the geographical spread of the business over several countries and by a lower level of customer concentration in the out-of-home sector. Cash deposits and other financial instruments give rise to credit risk on the amounts receivable from the relevant counterparties. Counterparty credit risk is managed by ensuring cash and short term deposits are made with reputable financial institutions.

Notes to the financial statements

at 31 December 2019

28. Financial instruments (continued)

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted payments.

	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>	<i>€000</i>	<i>€000</i>	<i>€000</i>
Interest-bearing loans and borrowings	-	-	17,944	83,380	18,853	120,177
Trade and other payables	-	83,058	-	-	-	83,058
Lease liabilities	-	1,477	4,015	10,834	2,170	18,496
Derivative financial instrument	-	46	216	-	-	262
Contract liabilities	-	-	12,788	-	-	12,788
Other current liabilities	-	13,683	-	-	-	13,683
	-	98,264	34,963	94,214	21,023	248,464

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments.

	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>	<i>€000</i>	<i>€000</i>	<i>€000</i>
Interest-bearing loans and borrowings	-	-	18,320	111,502	-	129,822
Trade and other payables	-	85,885	-	-	-	85,885
Other liabilities	-	17,562	7,420	-	-	24,982
	-	103,447	25,740	111,502	-	240,689

Capital management

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Notes to the financial statements

at 31 December 2019

28. Financial instruments (continued)

Determination of Fair value

A number of accounting principles and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. For measurement and disclosures purposes, the fair value is determined on the basis of the following methods. Where applicable, detailed information concerning the principles for determining the fair value is included in the section that specifically relates to the relevant asset or liability.

Derivatives

The fair value of forward exchange transactions is based on the quoted market price if available. If there is no market price available, the fair value is estimated on the basis of the expected cash flows discounted at the current interest rates, including a margin for discounting the relevant risk.

Cash Flow Hedge – Foreign Exchange

The objective of the Group's foreign exchange hedging policy is to protect the Group from adverse currency fluctuations and gain greater certainty of earnings through protection against sudden exchange rate movements. The Group uses forward foreign exchange contracts as hedging instruments for hedges of forecasted transactions.

Possible sources of ineffectiveness are scenarios where future flows are delayed to a later period or brought forward to a prior period. All hedges are expected to be 100% effective and thus no ineffectiveness has been recognised in the Group's Income Statement during the year (2018: €Nil).

The following impacts on the financial statements of the Group are referenced in the Statement of Comprehensive Income:

- The amount recognised in other comprehensive income during the year.
- The amount removed from equity and included in profit or loss for the year.

29. Acquisition of subsidiaries

No subsidiaries were acquired during 2019 or 2018.

Notes to the financial statements

at 31 December 2019

30. Commitments

Capital commitments

The Group had contractual commitments related to factory machinery at the balance sheet date of €4.7 million (€0.4 million in 2018).

Operating lease agreements where the Group is lessee.

Following the adoption of IFRS 16 'Leases' in 2019, all operating leases have been recognised on the Group balance sheet.

The year ended 31 December 2018 has not been restated under IFRS 16 and as such operating leases were held off balance sheet. In 2018 the Group had entered into commercial leases on certain properties, cars and coffee machines. These leases had an average duration of between 1 and 5 years. Only certain property lease agreements contained an option for renewal, with such options being exercisable three to six months before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018
	€'000
Not later than one year	6,642
After one year but not more than five years	12,416
After five years	2,226
	<u>21,284</u>

Notes to the financial statements

at 31 December 2019

31. Subsidiaries

<i>Name</i>	<i>Location</i>	<i>Share in issued capital</i>
<i>Direct</i>		
UCC Europe Finance Ltd	2 nd Floor Craven House, 40-45 Uxbridge Road, London, UK	100%
Coffee Capsule Holding SA	6 Tour de Champel, 1206 Geneva, Switzerland	100%
UCC Coffee Benelux B.V.	Kopman Heeresweg, 8701 PR Bolsward, The Netherlands	100%
UCC Coffee UK Ltd	2 Bradbourne Drive, Tilbrook, Milton Keynes, United Kingdom	100%
UCC Coffee UK Holding Ltd	2 Bradbourne Drive, Tilbrook, Milton Keynes, United Kingdom	100%
UCC Coffee Holding France Sarl	84 Allee Bernard Palissy, Valence, France	100%
UCC Coffee Services Switzerland AG	Avenue Louis-Casal 18 Geneva, Switzerland	100%
UCC Coffee Germany GmbH	Duhmner Strasse 92, Coesfeld, Gronau, Germany	100%
UCC Coffee Switzerland AG	Bernstrasse 180, Zollikofen, Switzerland	100%
<i>Indirect</i>		
Smit & Dorlas Koffiebranders B.V.	Nijverheidsweg 1, Mijdrecht, The Netherlands	100%
Cafés Templo Foodservice SL	Poligono Cantabria 1, Avenida de Mendavia 7, Logroño, Spain	100%
Cocatech SL	Goya, 15, 1st Floor, 28001 Madrid, Spain	100%
UCC Coffee Spain Canarias SI	Hoya Fria 6, 38110 Santa Cruz de Tenerife, Spain	99%
Ueshima coffee Portugal Lda	Praça Nuno Rodrigues dos Santos, 7 Urbanização das Laranjeiras 1600- 171 Lisbon, Portugal	100%
UCC Coffee Ireland Ltd	Beauchamp's, Riverside Two, Sir John Rogerson's Quay Dublin, Ireland	100%
UCC Coffee Spain S.L.U.	Poligono Cantabria 1, Avenida de Mendavia 7, Logroño, Spain	100%
UCC Coffee France S.A.S.	84 Allee Bernard Palissy, Valence, France	100%
Alice Allison SA	Zona Signu, 6537 Grono, Switzerland	100%

All shares held by the Group are ordinary shares.

Notes to the financial statements

at 31 December 2019

32. Related parties transactions

During 2019 and 2018 the Group repaid €15.0 million of the shareholders loan, original value €198.6 million (see note 22 for the year-end balance).

The interest expense on the shareholder loan was €3.3 million (€3.7 million in 2018 – note 8) during the year ended 31 December 2019, with €0.3 million accrued at the balance sheet date (€0.3m in 2018).

During the year the Group paid management charges to the ultimate parent company UCC Holdings Co Ltd, incorporated in Japan, of €0.6 million (€0.9 million in 2018). The amount outstanding as at 31 December 2019 in respect of this amount was €0.3 million (€0.3 million in 2018), these amounts are included within trade payables.

During the year the Group purchased tea, coffee and other services amounting to €1.1 million (€0.9 million in 2018) from other UCC Group members outside of the UCC E sub-group and companies under common directorship. The amount outstanding as at 31 December 2019 in respect of this amount was €0.2 million (€0.1 million in 2018).

During the year the Group made sales of coffee and coffee machines amounting to €0.2m (€nil in 2018) to other UCC Group members outside of the UCC E sub-group. There was no amount outstanding as at 31 December 2019 in respect of this sale.

33. Contingent liabilities

We are currently in legal dispute with a competitor concerning patents but based on the legal advice we have received, we have a strong case and therefore have not provided for any amounts in these financial statements. The potential maximum exposure of this case ranges between €1.5m-€3.0 million (2018: €1.5-3.0 million).

34. Subsequent events

In March 2020, Governments across Europe announced lockdown restrictions including the closure of a portion of our customer base, such as hotels, restaurants and cafes, as part of Government COVID-19 containment plans. The extent of this period of closure and actions by consumers once these have reopened are uncertain, but we already note some countries such as Germany and Switzerland have announced the easing of lockdown restrictions.

Whilst revenues to traditional coffee shops and cafes have decreased as populations are told to remain isolated, this is being somewhat offset by increased sales to retailers as people stockpile their homes.

The Group is mitigating the risk of coronavirus to our business through:

- Use of government support schemes such as furloughing of employees that are directly involved in the production and sale of goods and services to customers that are unable to operate due to government lockdown policies and various administrative roles;
- Workers are and will continue to be checked on arrival to factories prior to admission for high temperatures or any other symptom of COVID-19 to prevent widescale breakouts; and
- The Group operates several factories across Europe and disaster recovery plans are in place should a factory close due to an outbreak of coronavirus.

Downside scenario forecasting indicates a fall in the Group's Operating Profit in 2020 compared to the Board's expectations prior to development of the COVID-19 pandemic. The impact of these matters on the Group's ability to continue as a going concern is set out in note 2. Despite the potential reduction in Operating Profit, the Directors do not currently expect an impairment of goodwill, other intangibles, property, plant and equipment and right of use assets, based on the projected headroom available.

The Group is also witnessing very strong demand from retailers, which partially offsets a fall in demand from Out of Home and machinery sales. Following its enquiries the directors are also of the opinion that the fall in demand will be recovered as lockdown measures are gradually relaxed.

UCC Europe Limited

Registered No. 8016911

Company statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 €000	2018 €000
Income from shares in group undertakings		38,067	23,248
Impairment of investments		(86,297)	9,874
Administrative expenses		(7,140)	(7,810)
Depreciation and amortisation		(103)	(112)
Other income		7,695	6,179
Operating (Loss)/Profit		(47,778)	31,379
Finance costs		(4,401)	(4,448)
(Loss)/Profit before tax		(52,179)	26,931
Income tax expense	2	-	-
(Loss)/Profit for the year		(52,179)	26,931
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(52,179)	26,931

All transactions are derived from continuing operations.

UCC Europe Limited

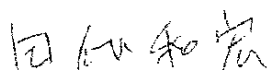
Registered No. 8016911

Company balance sheet

At 31 December 2019

	Note	2019 €000	2018 €000
Assets			
Non-current assets			
Property, plant and equipment	5	387	-
Intangible assets	6	947	-
Investments in subsidiaries	3	445,677	480,527
Long term receivables		5	5
Total non-current assets		447,016	480,532
Current assets			
Other receivables	4	15,019	1,055
Cash and cash equivalents	7	97	5,802
Total current assets		15,116	6,857
Total assets		462,132	487,389
Equity and liabilities			
Equity			
Share capital	8	294,000	294,000
Retained earnings		(3,275)	48,904
Total equity		290,725	342,904
Non-current liabilities			
Loans and borrowings	9	130,034	126,444
Lease liabilities		332	-
Total non-current liabilities		130,416	126,444
Current liabilities			
Loans and borrowings	9	38,937	15,705
Lease liabilities		114	-
Other payables	10	1,940	2,336
Total current liabilities		40,991	18,041
Total equity and liabilities		462,132	487,389

Kazuhiro Tashiro
Director



24 June 2020

UCC Europe Limited

Registered No. 8016911

Company statement of changes in equity

For the year ended 31 December 2019

	<i>Share capital</i> €000	<i>Retained earnings</i> €000	<i>Total equity</i> €000
At 31 December 2017	294,000	21,973	315,973
Profit for the year	-	26,931	26,931
Other comprehensive income	-	-	-
Total comprehensive income	-	26,931	26,931
At 31 December 2018	294,000	48,904	342,904
Loss for the year	-	(52,179)	(52,179)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(52,179)	(52,179)
At 31 December 2019	294,000	(3,275)	290,725

UCC Europe Limited

Registered No. 8016911

Company statement of cash flows

For the year ended 31 December 2019

	2019 €000	2018 €000
Operating activities		
(Loss)/Profit before tax	(52,179)	26,931
Non-cash adjustment to reconcile profit before tax to net cash flows		
Reversal of impairment of investments	86,297	(9,874)
Investment income	(38,067)	(23,248)
Depreciation of property, plant and equipment	103	112
Net finance costs	4,267	4,286
Working capital adjustments:		
Increase in current and other receivables	(1,118)	(398)
(Decrease) / Increase in current liabilities	(396)	1,050
Net cash flows used in operating activities	(1,093)	(1,141)
Investing activities		
Dividends received	38,067	23,248
Investment in subsidiaries	(8,516)	-
Purchase of intangible assets	(948)	-
Net cash flows from investing activities	28,603	23,248
Financing activities		
Proceeds of loans and borrowings	1,000	-
Repayment of loans and borrowings	(17,147)	(15,000)
Repayment of lease liabilities	(18)	-
Finance costs paid	(4,179)	(4,322)
Net cash flows used in financing activities	(20,344)	(19,322)
Net increase in cash and cash equivalents	7,166	2,785
Cash and cash equivalents at 1 January	5,802	3,017
Cash and cash equivalents at 31 December	12,968	5,802
Included within cash and cash equivalents (note 7)	97	5,802
Included within other receivables (note 4)	12,871	-
Total cash and cash equivalents	12,968	5,802

UCC Europe Limited

Registered No. 8016911

Notes to the Company financial statements

at 31 December 2019

1. Accounting policies

Basis of preparation

The parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the Companies Act 2006. The Parent company financial statements are prepared under the historical cost convention.

Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The parent company has net current liabilities, which are cleared through the regular annual receipt of dividends and income from subsidiaries that are wholly owned from the group within which the Company is a member and are planned to continue. Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In making this assessment the Directors considered the potential impact of the COVID-19 pandemic on the cash flows and liquidity of the Company over the 12 month period from the date of approval of these financial statements. In doing so the Directors also considered the results of its wider Group, in particular its trading subsidiaries. Please refer to Note 2 to the consolidated financial statements for an assessment of the Group's going concern status.

The Directors have concluded that the potential impact of the COVID-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless, having assessed the combination of these various options and the impact of a potential liquidity shortfall in the event of a longer period of impact from the COVID-19 pandemic the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company and Group were unable to continue as a going concern.

The accounting policies which apply in preparing the financial statements for the year ended 31 December 2019 are set out in note 2 of the Group consolidated financial statements. In addition, the following policies also apply:

Investment in subsidiaries and associates

The Company prepares separate financial statements and holds investments in subsidiaries and associates at cost less impairment.

Dividends

Dividends are recognised as 'Income from shares in group undertakings' in the statement of comprehensive income when the right of payment has been established.

Revenue

The Company recharges costs for services rendered to its subsidiaries on an arm's length basis.

Notes to the Company financial statements

at 31 December 2019

2. Income tax expense

Tax expense in the income statement

	2019	2018
	€000	€000
— Current income tax expense	-	-
— Adjustments recognised in the period for current tax of prior periods	-	-
Total current tax	-	-

Reconciliation of the total tax expense

The tax expense in the statement of comprehensive income for the year is higher (2018: lower) than the standard rate of corporation tax in the UK of 19% (19% in 2018). The differences are reconciled below:

	2019	2018
	€000	€000
(Loss)/Profit before taxation	(52,179)	26,931
Tax calculated at UK standard rate of corporation tax of 19% (2018: 19%)	(9,914)	5,117
Income not taxable for tax purposes	(7,233)	(6,266)
— Expenses not deductible for tax purposes	16,407	-
— Group tax relief surrendered	740	1,149
Total tax expense reported in income statement	-	-

There were no payments received for Group relief surrendered in 2019 or 2018.

3. Investment in subsidiaries

	€000
31 December 2017	470,653
Additions	9,874
31 December 2018	480,527
Additions	51,447
Impairment	(86,297)
31 December 2019	445,677

A list of investments comprising the above is included in note 31 to the group financial statements.

4. Other receivables

	2019	2018
	€000	€000
Receivables from group companies	14,931	976
Prepayments and accrued income	88	79
	15,019	1,055

Receivables from Group companies refer to management fees invoiced to the operating entities and includes cash in mirror accounts that the Company has access to without restriction.

Notes to the Company financial statements

at 31 December 2019

5. Property, plant and equipment

	<i>Other operating assets</i>	<i>Right of use assets</i>	<i>Total</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>
Cost or valuation:			
31 December 2017	587	-	587
31 December 2018	587	-	587
Transition adjustment	-	490	490
31 December 2019	587	490	1,077
Depreciation and impairment:			
31 December 2017	(475)	-	(475)
Depreciation charge for the year	(112)	-	(112)
31 December 2018	(587)	-	(587)
Depreciation charge for the year	-	(103)	(103)
31 December 2019	(587)	(103)	(690)
Net book value:			
At 31 December 2019	-	387	387
At 31 December 2018	-	-	-

Depreciation charge has been fully charged within Operating Profit.

Notes to the Company financial statements

at 31 December 2019

6. Intangible assets

	<i>Software</i> <i>€000</i>	<i>Total</i> <i>€000</i>
Cost or valuation:		
31 December 2017	92	92
31 December 2018	92	92
Additions	947	947
Disposals	(92)	(92)
31 December 2019	947	947
Depreciation and impairment:		
31 December 2017	(92)	(92)
31 December 2018	(92)	(92)
Disposals	92	92
31 December 2019	-	-
Net book value:		
At 31 December 2019	947	947
At 31 December 2018	-	-

7. Cash and cash equivalents

	<i>2019</i> <i>€000</i>	<i>2018</i> <i>€000</i>
Cash at banks and on hand	12,968	5,802
	<u>12,968</u>	<u>5,802</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The carrying value of cash and cash equivalents approximates their fair value.

8. Issued share capital

	<i>Thousands</i>	<i>€000</i>
Authorised shares		
Ordinary shares of €1 each at 31 December 2019 and 31 December 2018	294,000	294,000

Notes to the Company financial statements

at 31 December 2019

9. Loans and borrowings

	2019 €000	2018 €000
<i>Non-current</i>		
Shareholder loan	93,594	108,593
Loans from Group companies	36,490	17,851
	<u>130,084</u>	<u>126,444</u>
<i>Current</i>		
Shareholder loan	15,000	15,000
Loan from group companies	23,144	-
Accrued interest on loan from group companies	534	411
Accrued interest on shareholder loan	259	294
	<u>38,937</u>	<u>15,705</u>

The shareholder loan amounting to €108.6 million (€123.6 million in 2018) is disclosed in note 21 of the Group accounts.

The loan from Group companies include:

- €17.9 million is payable to UCC Coffee Benelux B.V., with a maturity date in 2020 and has an interest rate of 3.06% (2018: €17.9m).
- €40.8 million is payable to UCC Europe Finance Limited with a maturity date in 2029 and has an interest rate of 1.80% (2018: €Nil). Amounts payable within one year: €4.3m (2018: €Nil); Amounts payable within 2-5 years: €17.2m (2018: €Nil); Amounts payable greater than 5 years: €19.3m (2018: €Nil).
- €1.0 million is payable to UCC Coffee Germany GmbH, with a maturity date in 2020 and has an interest rate of 1.80% (2018: €Nil).

10. Other payables

	2019 €000	2018 €000
Account payable to third parties	741	62
Account payables to Group companies	335	991
Accrued expenses and other payables	600	946
Bonus to employees	264	337
	<u>1,940</u>	<u>2,336</u>

Other payables are non-interest bearing.

Payables to Group companies primarily relate to recharges incurred.

There is no material difference between the above amounts for trade and other payables and their fair value due to the short-term duration of the majority of trade and other payables.

Notes to the Company financial statements

at 31 December 2019

11. Related parties

In addition to the disclosures provided in note 9, related party balances and transactions are with companies with fellow wholly owned subsidiaries are not disclosed on the basis of being included within the consolidated financial statements of which the Company is a member.

12. Financial instruments

During the normal course of business, the Company makes use of investments, cash, group receivables, loans and borrowings and group borrowings. Borrowings are at fixed rates and are therefore not exposed to market risks. Group balances and borrowings are measured at amortised cost. With the exception of investment impairment risk, the Company's approach to managing exposure to risk arising from the use of financial instruments is set-out in note 28 to the consolidated financial statements.

Investment impairment risk

At each reporting date, the Company determines whether there is objective evidence that the investment in the subsidiary is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount and its carrying value and then recognises the loss within the statement of comprehensive income. An impairment loss is recognised for the amount by which the investment amounts exceeds its recoverable amount. The Company manages its exposure to investment impairment risk by continuously monitoring the performance of its subsidiaries.

13. Ultimate parent undertaking and controlling party

The Company is a subsidiary undertaking of UCC Holdings Co Ltd, incorporated in Japan, the smallest and largest Group that consolidate the results of the company.

14. Subsequent events

In March 2020, Governments across Europe announced lockdown restrictions including the closure of a portion of our customer base, such as hotels, restaurants and cafes, as part of Government COVID-19 containment plans. The extent of this period of closure and actions by consumers once these have reopened are uncertain, but we already note some countries such as Germany and Switzerland have announced the easing of lockdown restrictions.

Downside scenario forecasting indicates a fall in the Group's Operating Profit in 2020 compared to the Board's expectations prior to development of the COVID-19 pandemic. The impact of these matters on the Group's ability to continue as a going concern is set out in notes 2 and 34 to the Group financial statements.