

Froneri Lux Topco S.à r.l.

Annual report

31 December 2020

Registered office: 9, rue de Bitbourg, L - 1273 Luxembourg

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Consolidated management report

Overview of the business

Froneri Lux Topco S.à r.l. (“Froneri” or the “Group”) is owned and controlled in equal shares between the private equity firm PAI Partners (“PAI”) and Nestlé SA, (“Nestlé”). The Froneri Group was formed on 1 October 2016, as a result of the merger of the entire activities of R&R Ice Cream plc (“R&R”) and part of the ice cream and frozen food businesses of Nestlé. On 31 January 2020, Froneri Lux Topco S.à r.l., a newly-incorporated Luxembourg-domiciled holding company, was inserted at the head of the Group and became the ultimate parent company of the Froneri group of companies.

Throughout the year, Froneri has operated in Europe, Israel, Egypt, South Africa, Brazil, Argentina, Australia, New Zealand and the Philippines. In January 2020, Froneri acquired Dreyer’s Grand Ice Cream Holdings, Inc and its subsidiaries (together “Dreyer’s”), Nestlé USA’s ice cream business. In addition, Froneri acquired Nestlé’s Puerto Rico ice cream business. In December 2020, Froneri disposed of the frozen foods element of its Swiss business, retaining the core ice cream business. Froneri is now the second largest manufacturer of ice cream in the world and is the largest manufacturer of private label ice cream globally.

The Group predominantly produces ice cream and, to a lesser extent, frozen food and chilled dairy products. The Group primarily produces take-home ice cream products, including ice cream tubs and multi-packs of ice cream cones, ice lollies, ice cream sticks and ice cream desserts, and impulse products, which individuals buy for immediate consumption. The frozen food business is strongly interlinked with the ice cream business from both a manufacturing and sales perspective, providing opportunities in the out-of-home segment. Key offerings of frozen bakery are sold in certain geographies where the links between frozen food and ice cream are extensive. The chilled dairy business is based in the Philippines and is highly interconnected with the ice cream business.

Froneri is headquartered in the UK, with its registered office in Luxembourg. Following the acquisition of Dreyer’s (see below), Froneri now operates 31 factories in 23 countries and employs over 13,000 people in six continents. Four of the plants are in the USA, the largest ice cream market in the world, and eleven more are in the five largest ice cream markets in Europe (France, Germany, Italy, Spain and the UK). The Group has longstanding relationships with key retailers in its take-home business, and within the out-of-home business the Group has a combination of well-established distributor, wholesale and direct-store-delivery relationships.

The Group has a highly attractive brand and product portfolio that is well-balanced between branded and private label businesses. Froneri combines local brands, which are strong in national markets, with international brands, including licences for well-known brands under the Nestlé and Mondelēz umbrellas. Nestlé licenced brands include Mövenpick, Maxibon, Pirulo, Extrême and numerous local brands. Mondelēz brands include Oreo, Milka, Daim, Toblerone and numerous brands under the Cadbury name. Froneri’s owned brands include Nuii and RØAR. Across selected countries in Europe, southern Africa, and the Middle East, North America, Latin America and Asia Pacific, exclusive international licence agreements enable the Group to produce and sell ice cream products under established brand names and to maintain strong sales volumes as consumer demand shifts between branded and private label products.

Consolidated management report (*continued*)

Ownership and History

The founding businesses of Froneri are: the former ice cream businesses of Nestlé in Europe, Egypt, the Philippines, Brazil and Argentina, its chilled dairy business in the Philippines, and its European frozen food business (excluding pizza, and excluding retail frozen food in Italy); and the former R&R group, in its entirety. These businesses were merged to create the “Froneri” Group with effect from 1 October 2016.

The merger capitalised on the complementary strengths and innovation expertise of the parties. It combined Nestlé’s strong and successful brands and experience in ‘out-of-home’ distribution with R&R’s competitive manufacturing model and significant presence in retail. R&R focused on large, stable take-home markets and highly efficient manufacturing operations to gain key advantages over its competitors which are generally smaller and only offer regional distribution. Nestlé’s branded ice cream businesses, focused largely on the impulse sector, provide a different route to market and a much higher number of points of sale.

Nestlé is the world’s largest food and beverage company with a 2020 turnover of CHF 84.3 billion and an underlying trading operating profit margin of 17.7%. It is present in 190 countries around the world. Nestlé is committed to enhancing quality of life and contributing to a healthier future. Nestlé offers a wide portfolio of products and services for people and their pets throughout their lives. Its more than 2000 brands range from global icons like Nescafé or Nespresso to local favourites like Ninho. Company performance is driven by its Nutrition, Health and Wellness strategy. Nestlé is based in the Swiss town of Vevey where it was founded more than 150 years ago.

PAI Partners is a leading European private equity firm with offices in Paris, London, Luxembourg, Madrid, Milan, Munich, New York and Stockholm. PAI manages €14 billion of dedicated buyout funds. PAI has over a 20-year track record of investment and has completed 21 deals in the food and consumer sector. PAI is characterised by its industrial approach to ownership combined with its sector-based organisation. PAI provides the companies they own with the financial and strategic support required to pursue their development and enhance strategic value creation.

The former Nestlé businesses incorporated into the Group at Froneri’s inception have grown through various acquisitions in several countries over recent decades, with a diversified product and well-balanced portfolio of global and local brands. The various businesses are structurally different in terms of size, market position, and route-to-market models. The businesses are a mix of ice cream, frozen food and chilled dairy.

R&R was formed in 2006 when Richmond Foods (“Richmond”), a leading producer of ice cream in the UK, which was listed on the London Stock Exchange, merged with Roncadin Eis (‘Roncadin’), a German ice cream producer. This merger created R&R Ice Cream, the largest private label ice cream manufacturer in Europe. Since the Richmond-Roncadin combination, R&R continued to improve its position as a market leader in the fragmented ice cream business through strategic acquisitions across Europe and globally. R&R acquisitions were Nestlé’s South African ice cream business in May 2015, the Peters ice cream business in Australia in June 2014, and Fredericks’ business, which owned the rights to the Cadbury licence in the UK, in 2013. PAI Partners acquired the company from Oaktree Capital Management in July 2013.

Prior to the creation of the Froneri Group, Nestlé and R&R already had a longstanding and successful relationship, with R&R operating Nestlé brands in the UK since 2001 and subsequently R&R acquired former Nestlé ice cream businesses in Australia and South Africa.

Subsequent to the creation of the Froneri Group, Froneri acquired further businesses from Nestlé, in Israel in 2019 and the USA and Puerto Rico in 2020.

Froneri also acquired the New Zealand Tip Top business in 2019 from Fonterra.

Consolidated management report (*continued*)

Rationale for the Dreyer's acquisition

On 31 January 2020, Froneri expanded into North America by acquiring Dreyer's for USD 4 billion. The acquisition propels Froneri to be the 2nd largest ice cream manufacturer globally and marks its first entry into the USA ice cream market, the largest market in the world with a retail value of more than USD 12 billion (€10 billion) per annum. Dreyer's consists of a portfolio of iconic and loved ice cream brands including Häagen-Dazs, Drumstick, Outshine, Nestlé Ice Cream, Dreyer's and Skinny Cow. The transaction brings with it a high-calibre management team and extensive in-market knowledge, as well as marketing, manufacturing, sales and distribution capabilities. Dreyer's employs more than 2,500 people across the USA with 2020 sales of approximately USD 1.7 billion for the 11 months since acquisition. Froneri also acquired Payco Foods Corporation ("Payco"), Nestlé's Puerto Rican business as part of the same transaction. The addition of Dreyer's and Payco expands Froneri's global presence significantly and builds further on its highly successful partnership with Nestlé and PAI Partners.

As a result of the merger and subsequent acquisitions, Froneri is now a leader in the global ice cream market, with leading positions in 24 markets globally and is the number one producer of private label ice cream. The Group is well positioned, with a proven and experienced management team, to exploit opportunities, to capture significant cost synergies, enhance margins, and drive opportunities to grow sales from key brands.

Performance summary

Excluding the impact of discontinued items, for the year ended 31 December 2020, Froneri generated revenue of €3,972.9 million (2019: €2,631.2 million), an EBITDAE* of €655.6 million (2019: €496.3 million), Operating profit of €275.9 million (2019: €214.0 million), a loss before tax of €106.7 million (2019: profit of €20.8 million) and free cash flow before acquisitions, financing and exceptional items** of €522.0 million (2019: €188.7 million). At 31 December 2020 the Group had net liabilities of €293.6 million (2019: €10.6 million). The increase in net liabilities results from the loss after taxation for the year and movements in the currency translation reserve.

Including discontinued items, Revenue was €4,051.6 million (2019: €2,706.2 million) and EBITDAE* was €667.4 million (2019: €503.4 million).

2020 has been a challenging year with the worldwide impact of the COVID-19 pandemic; however, the Group has adapted to the challenges well. The Group's post-merger integration is still ahead of plan with the continued realisation of cost synergies from better procurement and the benefit of streamlining the Group's operational footprint, as well as general overhead savings. The integrations of the USA and Puerto Rico businesses acquired in 2020 are advancing well.

At a revenue level, the Group delivered total growth of 51.0% (year-on-year), with 54.9% deriving from new acquisitions and organic business falling 3.9%, largely as a result of the COVID-19 pandemic. Adjusting for the impact of acquisitions year on year, "A-brands" (defined as major cross-border international brands) within our organic business, showed a 2.0% fall year-on-year. There was also a significant fall in sales of non-ice cream products, being frozen foods and frozen bakery, directly linked to the decline in out of home ("OOH") markets.

* EBITDAE is a non-GAAP measure. EBITDAE is EBITDA before exceptional items (as defined in note 3 of the consolidated financial statements)

** free cash flow before acquisitions, financing and exceptional items is a non-GAAP measure. It is defined on the face of the Consolidated cash flow statement

Consolidated management report (*continued*)

Performance summary (*continued*)

EBITDAE growth has also been driven by the acquisitions in the year, supported by the continued realisation of cost synergies and overhead savings from the initiatives described above as the Group adapted to the challenges of the pandemic.

In 2020, Froneri incurred €73.4 million of total exceptional costs (2019: €75.3 million) which included restructuring and integration costs of €21.7 million, €32.1 million of M&A-related transaction costs and €3.1 million of asset impairments. These are described further in note 4 to the consolidated financial statements.

Revenue

Revenue, for the year ended 31 December 2020 was €3,972.9 million (2019: €2,631.2 million). The geographic split of revenue was €1,850.1 million (2019: €2,027.6 million) in Europe, €1,444.7 million (2019: €nil) in USA and €678.1 million (2019: €603.6 million) in the rest of the world.

The COVID-19 virus began to emerge in early 2020. The impact of COVID-19 on Froneri's customers and consumers has resulted in the closure of sales outlets in various countries operating in the OOH segment as well as in the "HORECA" (hotels, restaurants and cafes) segment. Together, these markets typically account for circa 25% of Froneri's overall revenue. Revenue in these channels has been severely impacted by COVID-19 in 2020. Conversely, revenue in the retail channel, which typically accounts for circa 75% of Froneri revenues, has been strong relative to expectations

The two acquisitions (as described in note 32) contributed €1,444 million to the Group's revenue for the year. Without the impact of these, revenue fell by 3.9% year-on-year.

Excluding the year on year impact of acquisitions, the Group's global A-brands fell by 2.0% largely resulting from the impact of the pandemic, hitting out of home markets hard. The Group's private label brands showed year on year growth, driven by the stronger retail performance in a number of territories.

Overall, the top 8 markets (including the USA acquisition in 2020) accounted for 75.7% (2019 top 7: 68.6%) of total Group revenue. Those markets comprised the USA, Australia, France, Germany, Italy, Spain, Switzerland and the UK.

Profitability

EBITDAE from continuing operations for the year ended 31 December 2020 was €655.6 million (2019: €496.3 million). The geographic split of EBITDAE was €357.2 million (2019: €430.5 million) in Europe, €196.2 million (2019: €Nil) in USA and €102.2 million (2019: €65.8 million) in the rest of the world.

The Group's profitability has been impacted by the COVID-19 pandemic in 2020 with EBITDAE growth of 32.1% year-on-year being driven by the acquisition in the USA. Without the additional EBITDAE contributed by the USA acquisition, EBITDAE decreased by 7.3% year-on-year. Despite the challenges in the year, the Group has continued to focus on better procurement and the implementation of plans to streamline both the operational footprint (including the closure of factories) and general overhead savings.

Operating profit (after exceptional items) for the year ended 31 December 2020 was €275.9 million (2019: €214.0 million). Loss before tax for the year ended 31 December was €106.7 million (2019: profit of €20.8 million).

Consolidated management report (*continued*)

Performance summary (*continued*)

Exceptional items

Exceptional costs of €73.4 million were incurred in 2020 (2019: €75.3 million). As noted in the performance summary, the costs mainly arose from the acquisitions in the year and from restructuring and integration projects (see note 4).

Cash flows

Froneri generated €522.0 million (2019: €188.7 million) of free cash flow before acquisitions and sales of subsidiaries, financing and exceptional items. Strong operating cash flow of €792.1 million (2019: €362.2 million) (including €70.3 million impact of exceptional items (excluding impairments) (2019: €66.2 million)) and positive working capital movements of €195.0 million (2019: adverse movements of €75.0 million), was offset by interest payments of €162.5 million (2019: €66.3 million) and corporation tax payments €80.7 million (2019: €35.6 million). As a result, the Group generated €548.9 million from operations, compared to €260.3 million in the prior year. In response to the uncertainty of the COVID-19 pandemic, the Group significantly reduced its capital spend and invested only €142.5 million in manufacturing capacity and capability compared to €170.7 million in 2019.

Capital structure

Please see notes 20, 24 and 25 for a summary of the debt and equity structure of the Group at the year end.

On January 29, 2020, the Group entered into a new €6.2 billion equivalent financing package through a new Senior Facilities Agreement and Second Lien Facility Agreement. The new debt facilities were entered into to refinance the existing term loan facilities and complete the acquisition of Dreyer's. The facilities comprise: a €2,180.0 million senior term loan facility and a USD 2,670.0 million senior term loan facility, both with maturity dates of January 2027; second lien term loan facilities of €245.0 million and USD 245.0 million, with maturities of January 2028; a shareholder loan of USD 600.0 million, with a maturity of December 2029; and a new USD 600.0 million multi-currency revolving credit facility, with a maturity of July 2026.

The Group also entered into a series of cross currency interest rate swaps, swapping USD 510 million to GBP and USD 325 million to AUD, in order to better match the underlying cashflow generation of the Group.

Froneri has significantly increased its debt leverage ratios as a result of the Dreyer's transaction.

As part of the refinancing, a new Luxembourg-domiciled holding company, Froneri Lux TopCo S.à r.l., was inserted at the head of the Group and is now the ultimate holding company of the Froneri Group. The capital structure of the Group was significantly reorganised with the shareholder debt and equity now being invested in Froneri Lux Topco S.à r.l. rather than Froneri Limited.

Going concern

At 31 December 2020, the Group had net liabilities of €293.6 million (2019: €10.6 million).

The Board of Managers have considered this position, together with the company and the Group's budgets and positive net current assets position. These forecasts were then subject to a range of sensitivities including a severe but plausible scenario together with the likely effectiveness of mitigating actions. Such sensitivities includes any impact of further restrictions due to COVID-19. Under these sensitivities, after taking mitigating actions, the Group continues to have a sufficient level of liquidity to continue in operation and meet its liabilities as they fall due. After making appropriate enquiries, the Board of Managers consider that the company has adequate resources to continue in operational existence for the foreseeable future and therefore adopt the going concern basis for the preparation of the financial statements.

Consolidated management report (continued)

Principal exchange rates

Froneri reports its results in Euros, its presentational currency. In the year ended 31 December 2019 the Group operated in fifteen other currencies and the principal exchange rates in use are shown below:

Currency	Symbol	31 December 2019	1 January – 31 December 2019 average
Argentinian Peso	ARS	67.10	67.10*
Australian Dollar	AUD	1.60	1.61
Bulgarian Lev	BGN	1.95	1.96
Brazilian Real	BRL	4.51	4.41
Swiss Franc	CHF	1.08	1.11
Egyptian Pound	EGP	18.09	18.90
British Pound Sterling	GBP	0.84	0.88
Israel New Shekel	ILS	3.87	3.87
New Zealand Dollar	NZD	1.66	1.72
Philippine Peso	PHP	56.78	57.95
Polish Zloty	PLN	4.26	4.30
Romanian Leu	RON	4.78	4.74
Serbian Dinar	RSD	117.59	117.85
Russian Rouble	RUB	69.34	72.53
South African Rand	ZAR	15.69	16.16

The principal exchange rates in use in the year ended 31 December 2020 and as at 31 December 2020 are shown below:

Currency	Symbol	31 December 2020	1 January – 31 December 2020 average
Argentinian Peso	ARS	103.530	103.530*
Australian Dollar	AUD	1.587	1.655
Bulgarian Lev	BGN	1.956	1.956
Brazilian Real	BRL	6.343	5.893
Swiss Franc	CHF	1.081	1.070
Egyptian Pound	EGP	19.400	17.995
British Pound Sterling	GBP	0.893	0.889
Israel New Shekel	ILS	3.921	3.920
New Zealand Dollar	NZD	1.699	1.756
Philippine Peso	PHP	58.635	56.569
Polish Zloty	PLN	4.615	4.440
Romanian Leu	RON	4.869	4.837
Serbian Dinar	RSD	117.580	117.578
Russian Rouble	RUB	90.682	83.227
South African Rand	ZAR	17.938	18.763
USA Dollar	USD	1.221	1.144

*due to the adoption of IAS 29 the year end rate is used for all conversions of the Argentinian Peso

Consolidated management report (*continued*)

Strategy

The Group's goal is to become the world's best ice cream company. It aims to consolidate its position as a leading global manufacturer of ice cream and frozen products and increase profitability through synergies and improving efficiency across the Group. The Group's growth strategy is based on the following key pillars:

Sell more

Firstly, using product innovation and the Group's different brands, products, capabilities and channels to sell more and grow faster than the market. And secondly to have a complete product portfolio, with A-brands, local jewels, licensed brands and private label, enabling the Group to have a total category model.

Buy better

The second key pillar is to buy better, using procurement excellence, vertical integration and more efficient selection of ingredients.

Take costs out

The third key pillar is to take costs out through:

- Removing duplicative overhead functions, benchmarking production metrics and cost structures
- Optimising the Group's factory network
- Harmonising the Group's IT systems; and
- Utilising local third-party logistics where efficient

Market position, trends and other factors affecting future performance

Froneri regards the market as being split between the take-home ice cream segment, where products are purchased from retailers for consumption at home, and the out-of-home segment, where ice cream products are purchased for immediate consumption. The take-home market for Froneri is larger than the out-of-home market, though both are substantial in most of the Group's key markets. The market is also split between branded and private label segments. The private label market is significantly smaller than the branded market in aggregate – although certain key countries have a substantial share in private label. Overall, Froneri holds the number two position by revenue in the global markets, ranking only behind Unilever, and at least a top three position in all the countries in which the Group operates. In the private label segment, Froneri is the largest global producer. Including Dreyer's, approximately 85% of Group sales are from branded products, which are comprised of iconic portfolio of brands including Häagen-Dazs, Mövenpick, Extrême, Drumstick, Nuii, Maxibon, Pirulo, Oreo, Milka and Cadbury.

Prior to the Dreyer's acquisition, the majority of Froneri's revenues were generated in the developed markets of Europe. Overall, the European market has shown consistent growth over several decades. Drivers of this market growth include innovation, "premiumisation", convenience and accessibility. Froneri is well-positioned to benefit from the continued growth in these markets, through its focus on product development to anticipate and react to changing consumer trends (such as using natural flavours and colours), introducing new products with innovative flavours and inclusion combinations, and expanding the product range across branded and private label offerings. Product "premiumisation" and the positioning of ice cream as an affordable luxury have been key in driving growth in developed markets.

As well as investing in product innovation in growing segments of the market, Froneri is investing in the international positioning of its brands. Developing markets in both Europe and the rest of the world also represent a significant growth opportunity. Here, economic growth is generally higher than in developed economies and there are greater opportunities to expand Froneri's addressable market, as well as capture market share. Ice cream is a relatively premium indulgence, when compared to other indulgent categories such as confectionery or sweet biscuits, which have much higher penetration in emerging markets.

Consolidated management report (*continued*)

Strategy (*continued*)

Market position, trends and other factors affecting future performance (continued)

The acquisition of the Dreyer's business further enhances Froneri's existing business and creates tangible upsides. The addition of the business in USA increases the Company's geographic footprint and scale; the USA is the largest retail ice cream market globally. New brands are introduced to the business – including Häagen-Dazs, a super-premium brand. The acquisition creates a platform for the Company from which consolidation can occur in the USA market. Froneri will be able to apply its extensive ice cream knowledge to the Dreyer's business, while also contributing the Froneri way of working (including best practices and cost structure optimisation) and its proven innovation capabilities to drive further growth in the USA. The Group believes it will successfully integrate Dreyer's, leveraging its strong execution track record in delivering significant over performance of Froneri 2 years ahead of the original Froneri business plans, and the relatively less complex nature of the USA business compared to the original integration of the Nestlé and R&R businesses across many geographies. The integration during 2020 is progressing well and the benefits of this significant acquisition are already being seen.

The sale of the Swiss frozen foods business on 31 December 2020, enables Froneri to concentrate on its core Ice cream business in that geography.

The scale of Froneri's operations means that it is well-placed to maintain its competitiveness in all its markets. This will also be an important factor in the ability of the Group to deliver the strategic objectives of being able to buy better and take costs out of the business, and to generate strong cash flows, in order to invest in its brands, products and customer relationships.

Impact of COVID-19

Froneri is monitoring the ongoing COVID-19 situation in each of its operating countries across the globe and continues to take advice from the relevant experts, applicable country health authorities and the World Health Organization to determine its ongoing response and protective measures. The impact of COVID-19 on Froneri's customers and consumers has resulted in the closure of sales outlets in various countries operating in the 'out of home' segment as well as cafes, restaurants, bars and hotels. Revenue in these channels has been adversely impacted whereas revenue in the retail channel has been strong relative to expectations. Froneri's revenue in the OOH and HORECA channels represents ~25% of revenues, the balance of which is in the retail channel.

Being a food manufacturer, in 2020 none of our operations have been required (by law) to shut down despite various lockdown restrictions having been enforced. We have not experienced major incremental supply chain or logistics challenges as a result of COVID-19. We have implemented various initiatives at sites to reduce the risk of COVID-19 spread. Such measures have included testing of employees, strict rules on visitors to sites, significantly enhanced cleaning, reduced business travel, home working for office staff and other general social distancing measures across our sites. Consequently, during 2020 we experienced only isolated instances of COVID-19 infection across the workforce. Cost mitigation strategies we have taken include: non-critical marketing activities paused, reduced headcount, reduced production volumes and temporary factory shutdowns, use of government initiatives, reduced discretionary spend and tight control of all overheads. In order to protect and preserve cash, we: put on hold non-essential capex, significantly reduced our stock levels in response to the anticipated reductions in demand, redoubled our efforts on cash collection, took advantage of government initiatives to defer payments where possible and managed payments to non-critical suppliers where possible.

At the time of writing, various countries are beginning to gradually remove restrictions. Froneri will closely monitor developments and assess the ongoing impact on its business. Based on performance to date, current circumstances and internal projections, the Group maintains its view that it will be well within bank facility limits and covenant levels during 2021 and 2022.

Management report *(continued)*

Strategy *(continued)*

Core values

The core values of Froneri are as follows:

Consumer focus

- To have passion for consumers and customers, who are the heart of the business

Quality

- To have a passion for excellence
- To strive to be the best at everything that the Group do, to drive value

Performance

- To have a passion for results
- To grow value in the business: for example, by keeping things simple and challenging each other

Teamwork

- To have a passion for people
- To deliver superior business performance by getting the right people to work together

Accountability

- To have a passion for ownership
- By taking responsibility for the Group's actions and doing what it says it will do

Entrepreneurialism

- To be entrepreneurial in the Group's businesses
- To identify ways to improve performance and learn from mistakes.

These values are at the heart of employee communications, employee development and employee recognition, and form the basis by which the Froneri business will grow.

Consolidated management report (*continued*)

Our Environmental, Social and Governance (“ESG”) Strategy

In 2020 Froneri continued to implement its overall ESG Strategy which is aligned to the adoption of nine of the 17 UN Sustainable Development Goals that Froneri feels are most applicable to the business and its ESG impacts. The strategy also features 11 ESG related promises. In 2020, Froneri established a Board ESG Committee, chaired by the current chair of the Audit Committee. The purpose of this committee is to:

- To monitor the overall ESG strategy and the performance against key strategic goals and promises
- To monitor group wide ESG risks and controls
- To keep abreast of developments in ESG to ensure the promises remain relevant
- To propose additional areas of focus for the business for consideration

We have already committed to several ambitious deliverables:

By 2022:

- 100% of our children’s portfolio meeting <110Kcal, <12g Sugar, <3.8g Saturated Fat
- 100% of palm oil sustainably sourced (RSPO) and all our own factories RSPO certified
- Eliminate single use plastic spoons, straws, cups and lids in out of home range
- 50% reduction in safety incident severity.

By 2025:

- More than 90% of all branded products fewer than 250Kcal per serving
- 100% recyclable, compostable, biodegradable or reusable packaging
- 100% paper, cardboard and sticks sourced from responsibly managed forests or from recycled material
- No plastic novelties in children’s products
- 100% factory recovered waste
- >70% employee engagement

In 2020 the Group also established and implemented best practice and relevant country enforced procedures and controls in response to the COVID-19 pandemic in every country. These controls and procedures enabled the Company to continue to maintain operations where required.

Health & Safety matters

The Froneri Health & Safety (“H&S”) Strategy focuses on targeting risk reduction and performance improvements. Initiatives across the Group continued to deliver exceptional H&S performance with a 21% reduction in high to medium risk-related incidents and a 39% reduction in lost time injuries.

Key initiatives implemented in the year in countries within the Group were:

- A behaviour-based safety programme
- Country-specific risk management and H&S plans.

Consolidated management report (*continued*)

Environmental matters

The Group always aims to operate in an environmentally-responsible manner. Compliance with relevant legislation and regulations is regarded as imperative, and the adoption of responsible standards where no legislation exists is an integral part of business strategy. The Group recognises that its activities have an impact on the environment. To reduce this, it sets environmental objectives and targets relating to energy reduction (electricity and gas) and water usage.

Froneri works closely with the municipal authorities in the various countries to ensure that its processes do not adversely affect biodiversity. This is achieved through the controls put in place by way of waste management permits including effluent discharge consents. Additionally, there are various containment measures put in place to minimise any potential adverse impact on biodiversity. There are also periodic risk assessments carried out in the countries to ensure that these control measures are maintained or updated.

In the last few years, Trigenation (combined heat and power – “CHP”) power plants have been installed at four Group locations, to increase the energy efficiency of its manufacturing facilities. The most recent plant was installed at the Group’s facility in Ferentino, Italy and was fully operational by the end of Q4 2019. The Group also looks to reduce its environmental footprint through minimising waste by prevention, reuse and recycling. These targets are monitored and reviewed through KPIs.

We are also undertaking several activities to further increase the efficiency of our factories, upgrading freezers and compressors and continuing the program on refrigeration systems, to complete the switch from CO2 into Ammonia everywhere.

Raw materials are purchased from sustainable sources. Froneri’s sticks are sourced from a supplier which is certified by the FSC (Forest Stewardship Council®) or PEFC (The Programme for the Endorsement of Forest Certification) depending on the country. This means the original wood the sticks are produced from is traceable to sustainably managed forests and 100% compliant with regulations that ensure respect for the highest ecological, social and ethical standards.

Froneri is committed to working with its customers, brands and suppliers to reduce the impact of plastic packaging on the environment. We aim to have 100% recyclable, compostable or reusable packaging by 2025. In 2020, we’ve removed 100 million SUPs (Single Use Plastic items) as plastic spoons, lid, stick and cups. By the end of 2021, we’ll have removed another 100 million SUPs and more than 400 tons of Polystyrene (non-recyclable plastic).

Froneri is committed to sourcing all its palm oil responsibly and sustainably. As a member of the Roundtable on Sustainable Palm Oil (RSPO) we support and endorse its Principles and Criteria. We are committed to ensuring that all of the palm oil contained in our products is responsibly and sustainably sourced. Our aim is to have all of our palm oil sustainably sourced by 2022.

Froneri has partnered with the Rainforest Alliance who, through a sustainable sourcing program, protect forests, improve the livelihoods of farmers and forest communities, promote their human rights, and help them mitigate and adapt to the climate crisis. Froneri is committed to use certified sustainable cocoa and chocolate across Nuii, Extrême, Mövenpick of Switzerland, Kit Kat and Smarties by 2022.

Froneri is committed to an approach to drive overall carbon reduction. We are working with external consultants to identify our processes or streams that impact carbon emissions, such as raw material and packaging procurement and usage, waste generated through the process, energy and water procured and consumed and also how we operate on a daily basis across all functions. Targets will then be set to reduce emissions to reach net zero emissions by 2050. Such initiatives will be fully embedded into Froneri processes across the world, with performance measured and monitored regularly.

Consolidated management report (*continued*)

Social and community matters

Froneri aims to be a good corporate citizen recognising its responsibility to work in partnership with the communities in which it operates. The Group encourages active employee support for local communities or chosen charities, in particular those that aid children and young people. The Group's businesses have regularly donated a part of their income to local charities as well as donating products that charities and communities can then sell to raise funds. It is the Group's policy not to make political donations.

Froneri recently launched the indulgent plant-based ice cream with a social conscious: RØAR®. This new brand is about a conscious mindset, social responsibility and caring for animal welfare. The brand will be aimed at an audience who live a balanced lifestyle, those who are looking to indulge whilst still making responsible food choices (the range does not contain palm oil and all cocoa is UTZ Certified). RØAR®'s animal welfare expands beyond ingredients with a long-term partnership with Panthera; Panthera is the only organisation in the world devoted exclusively to the conservation of the world's wild cats, aiming to increase tiger numbers by at least 50% over a ten-year period.

Froneri recognises that obesity, particularly in children, is one of the most significant health issues worldwide and that as an ice cream company with a vision to be the world's best it has a responsibility to help tackle this. Over 70% of our children's products by volume sold already meet these commitments and our "Road to 100%" plan sets out the steps which will enable us to achieve these reductions across all our children's products by 2022.

Other examples of our working with our communities and customers include:

- 80% of our "kids" products now below 110 kcal per serving
- Extrême: Removing plastic lid
- Maxibon: Beyond Blue partnership in Australia relating to men's mental health
- Kelly's of Cornwall: Beach clean ups on the Cornish coast
- Nuii: Partnership with Wild Ark to build an education centre in Namibia for endangered elephants and human co-habitation as well installing 40 solar powered water wells

Consolidated management report (*continued*)

Business ethics and human rights

Froneri is committed to conducting business in an ethically and socially responsible manner and treating employees, customers, suppliers and shareholders in a fair, open and honest manner. The Group is regularly audited, by both independent auditors and customers.

We have committed to a programme of auditing our top suppliers at a group and country level over the next three years to cover areas like Consumer Safety, compliance to our specification and verification of ethical and environmental commitments. This further helps Froneri ensure that its suppliers operate in an ethically and socially responsible manner. To bring additional rigour to this audit programme the Company recently selected Intertek as our supplier audit partner.

The Group is similarly committed to conducting business in a way that is consistent with universal values on human rights and complying with the Human Rights Act 1998. The Group ensures that appropriate consideration is given to human rights issues in the formulation of its policies and processes. This is most pertinent in the Group's approach to supply chain management (and the consideration of an ethical trading stance in that respect) and overseas employment policies and practices. Where appropriate, this can take the form of charitable donations, supporting employees in fund raising or volunteering for local good causes, and community partnering. In addition, employee welfare measures are monitored in regular KPIs, such as absenteeism, the extent of vacant positions and working hours.

There have been no instances of non-compliance with these policies noted in the year.

Employees

In 2020, in all of the markets where we operate, we developed specific strategies aimed at enhancing employee engagement, developing relevant capabilities required to run the business with the vision of being the "best ice cream company in the world", increasing the depth of talent and the breadth of diversity, and ensuring compliance with local employment laws and regulations.

Froneri operates a framework for employee information and consultation in line with the relevant regulations in each territory. Throughout the period, the Group continued to provide information on its website and through regular employee communications. Over the course of 2020, the Group completed most of its remaining IT integration projects. This further enhances the Group's ability to communicate vital information to its workforce. In each of the operating countries the Group provides channels through which employees can express views and communicate regularly with senior management of the business.

Consolidated management report (*continued*)

Diversity; Gender-based reporting and Disability

Froneri is committed to gender-neutral employment policies, including retention, recruitment and remuneration. In 2020, the six-strong Froneri board was all male.

As of 31 December 2020, the Group had a total of 13,289 permanent and non-permanent employees. The increase in the year over previous periods was mainly due to the USA acquisition. This total was made up of 11,735 permanent employees and 1,554 non-permanent employees. Of the overall total, 3,686 were women and 9,603 were men.

In terms of management there are 1,303 employees categorised as managers, of which 421 are women, 28 employees categorised as senior managers, five of whom are women. Of these, three of the top eight markets are led by female Country Heads.

In 2020 Froneri continued its talent and succession planning activity with a continued emphasis on the “top 200” roles across the Group. As part of this activity it aims to ensure that it undertakes the activity mindful of gender considerations. Its aim is to increase the proportion of women in senior roles both for the benefits that this diversity brings and to better reflect the diversity of its consumers. The object of this exercise is to identify its areas of strength and relative weakness from a talent perspective. It is only by undertaking this exercise on a regular basis that the Group can begin to identify the actions we need to take to put the talent in place, which will ensure the success of the business over the medium and long term.

Actions in talent and succession place an emphasis on developing existing talent in the organisation, taking a strategic view of any external hire opportunity and making sure there are measures in place to retain critical people. These actions are a key focus of Group level activity and act as a template for Country Heads to follow.

Froneri is a culturally-diverse company which is determined to develop an inclusive culture respectful of the contribution of all employees regardless of age, country of origin and race, disability, gender/gender identity and sexual orientation, religion, marital status and dependants, political views and social class. It recruits, employs, rewards, trains and promotes employees purely on merit and the specific qualifications and abilities needed for the work to be performed.

Anti-bribery and Corruption policy

It is Froneri’s policy to conduct all its business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate.

Each Group business must implement their own local Anti-Bribery Policy which incorporates the Group’s minimum policy requirements, whilst being sensitive to local customs. All employees are trained on the requirements periodically. Country Managers, Heads of Finance and managers are responsible for implementing their own local policies including appropriate practices, processes, controls and training.

Froneri operates in certain territories which present a higher risk of bribery and corruption than others due to the particular political and social landscape. Before doing business in any new territory, we assess the risks associated with that territory from a bribery and corruption perspective to identify and implement any controls required to manage the risks of operating in that territory proportionate to the bribery and corruption risk.

Each Froneri business must have adequate anti-bribery and corruption procedures and due diligence in place relating to employees, agents and distributors, suppliers, customers and other associated persons. Additional due diligence is performed on those employees who have access to company funds or hold a position of seniority. The Group also has clear guidelines in place regarding gifts & hospitality and charitable & political donations.

Consolidated management report (*continued*)

Anti-bribery and Corruption policy (*continued*)

All employees are encouraged to raise concerns about suspected bribery or corruption, either through their usual chain of command, through Group legal or through the third-party whistleblowing hotline, as appropriate.

There have been no instances of non-compliance with the policy noted in the year.

Private equity reporting guidelines

The Board of Managers consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

Key Performance Indicators (“KPIs”)

In addition to the measures discussed above, there are a number of key performance indicators being used across the Group on a daily, weekly and monthly basis. These monitor performance of the operations compared to budget, prior year and compared to forecast, where appropriate.

The KPIs monitored on a regular basis incorporate both financial and non-financial measures and cover all functions of the business.

KPIs monitored on a daily basis, amongst most of the Group’s businesses, are:

- Safety
- Production volume
- Sales volume and value
- Order intake

KPIs monitored weekly/monthly are the above plus:

- COVID incidences
- Reportable accidents
- Sales, gross margins and EBITDAE margins
- Profit and cash generation
- Inventory levels
- Quality measures, such as customer complaints
- Raw materials and packaging buying prices
- Write-offs of raw materials and finished goods
- Variances of operational performance and costs to standard
- Capital expenditure
- Absenteeism
- Service levels
- Market share

Consolidated management report (*continued*)

Principal risks and uncertainties

The Board of Managers consider the potential impact of business risks regularly at Board meetings. Actions to mitigate the risks are also discussed. The more significant risks and uncertainties faced by the Group are set out below:

- **Currency exposure.** The Group now operates in seventeen currencies as set out in the exchange rates tables. Because the Group reports in Euros, any strengthening of the Euro relative to the local currency that the subsidiaries operate in would adversely affect the contribution from those countries to Group profitability. After the Euro, the key currencies in use by or in the Group's largest markets are the US dollar, British Pound Sterling, the Australian Dollar and the Swiss Franc. The spread of currencies across the Group provides an element of diversification to reduce the exposure to currency fluctuation. There are varying degrees of restrictions in place by the different local central banks, which limit the amount of local currency that may be exchanged and/or repatriated.
- **Price and supply fluctuations.** Whilst the Group looks to hedge most of the raw material requirements for a term of up to one year, any unhedged raw materials, including dairy which it can potentially only partially hedge, may present risk.
- **Acquisitions integration.** Whilst the Group undertakes detailed due diligence ahead of any acquisition, there is the potential that acquisitions may expose it to additional unforeseen risk. The scale of the USA business combination in particular requires careful integration of systems, processes and cultures.
- **Deliberate contamination of food or raw materials during production.** The Group has in place controls to physically segregate and secure its physical production areas and has testing procedures in place to check finished goods. The Group continues to take actions to improve physical security access across its facilities. There remains however a risk that deliberate contamination could occur.
- **IT disaster recovery processes are ineffective or that there is a cyber-attack.** Whilst the Group has IT recovery and crisis management plans in place, there remains a risk that a loss of/ issue with the Group's IT systems could disrupt the Group's business resulting in financial loss or reputational damage.
- **Seasonality.** The ice cream market is characterised by fluctuations in sales, although these largely equalise out over the course of a year. Ice cream sales are inextricably linked with the seasons and therefore any climate changes have the potential to impact on business. The Group operates primarily in the northern hemisphere; however, its operations in South America, Australia, New Zealand and South Africa provides some risk mitigation in respect of seasonality.
- **Competition in the ice cream industry.** The Group operates in highly competitive markets, often competing with other substantial multi-national businesses, and with large, profitable retail customers and its failure to compete effectively could result in a material adverse effect on its results.
- **Economic conditions.** The Group derives most of its profits from sales activities in Europe, (in particular, from Germany, France, Italy, Spain, Switzerland and the UK), from Australia and, following the acquisition of Dreyer's, from the USA. It is therefore sensitive to fluctuations in the economic conditions of these countries. In this respect, the process of the UK leaving the European Union and resultant impact on the UK and European economies creates uncertainty and a risk to the Group.
- **Health pandemics.** Froneri continues to monitor the ongoing COVID-19 situation. Local lockdowns continue to impact market demand, particularly for ice cream consumed out of the home, and creates additional challenges for our supply chain and employees.

The Board considers that its scale of operations provides significant buffer to the risks outlined and has strategies to manage these risks and remains confident in the Group's ability to mitigate any significant effect.

Consolidated management report (*continued*)

Financial Risk Management Policies and Objectives

The Group finances its activities with a combination of a bank loans, shareholder loan notes, debt factoring, cash and revolving credit facilities. Other financial assets and liabilities arise directly from the Group's operating activities. The main risks associated with the Group's financial assets and liabilities are set out as below (please refer to note 25 for a more detailed narrative):

- The Group's functional currency is the Euro. Each of its trading operations typically buys and sells the majority of goods denominated in the local currency. As a result, the value of the Group's local currency revenues, purchases, financial assets and liabilities and cash flows can be affected significantly by movements in the exchange rates of the local currency compared to the Euro. The size of the USA, UK, Swiss and Australian operations, in particular, means that market movement in the US Dollar, Pound Sterling, the Swiss Franc and the Australian Dollar can have a significant impact on the reported results and financial assets and liabilities of the Group. Additionally, the Group has an ongoing obligation to pay licence fees for intellectual property from Nestlé in Swiss Francs, thus increasing the Group's exposure to that currency.
- The Group's financial assets and liabilities may also be impacted by political interventions by local central banks. However, such interventions are viewed as uncommon. From 2018 to 2020, Argentina has been a hyper inflationary economy and as a result the Group has applied hyperinflation accounting, which is described in note 27 to the financial statements.
- Post-refinancing in January 2020, the Group's term loans are now denominated in Euros and US dollars, with certain of the US dollar loans swapped into Euros, Sterling and Australian Dollars. Whilst the Group believes that it has put in place an effective hedging strategy regarding those liabilities, there remains the risk of mismatch between the underlying cash flows, assets and liabilities of the Group's trading subsidiaries and the Group's loan note liabilities and debt servicing obligations.
- The Group's shareholder loan notes bear interest at fixed rates. Consequently, there is no interest rate risk on these instruments. However, the Group's other debt facilities (including the Group's term loans) are largely at variable interest rates, and therefore carry interest rate risk. A significant proportion of the interest on the new US dollar-denominated debt facilities is fixed through floating-to-fixed swaps.

The Group aims to mitigate liquidity risk by managing cash generation and applying cash collection targets throughout the Group. The Group has a Group treasury function which mitigates currency risk through natural hedging opportunities where possible. Investment is carefully controlled, with authorisation limits operating up to Group Board level.

Consolidated management report (*continued*)

Tax Policies and Objectives

Approach to Tax Strategy

Froneri is a leading ice cream company and our focus will always be to create the very best ice cream products possible, to both satisfy and excite the consumer. The primary role of the tax function within Froneri is to ensure a strong level of tax compliance across all areas of taxation. Providing a strong base of compliance allows the business to focus on making the best ice cream products possible. Froneri has a responsibility towards all its stakeholders to ensure that it behaves in a responsible way on tax matters and ensure that the right amount of tax is paid in each country. This includes the responsibility to Froneri's shareholders to make sure Froneri does not pay excessive levels of taxation and that double taxation is avoided whenever possible. Decisions within Froneri are commercially-driven and the role of the tax function is to support the commercial operations.

Attitude to Tax Planning and Risk

Froneri values certainty on tax-related matters and will take steps to reduce tax risks where possible and practical. The Froneri group aims to report the right and proper amount of tax due according to where value is created and is committed to paying taxes due and ensuring compliance with all applicable legislative requirements in both the UK and globally. The Group only adopts tax planning arrangements to the extent that it supports commercial activities, and with the firm requirement that Froneri remains compliant with all relevant tax legislation. Where there is uncertainty over interpretation of tax law, Froneri will consult with external advisors and the relevant tax authority as necessary, to minimise uncertainty and risk.

Working with Tax Authorities

The Group operates a transparent approach to its interaction with all tax authorities. Froneri is committed to meeting its compliance obligations in a timely manner, making accurate returns and providing adequate disclosure on returns and in relation to specific transactions. Any inadvertent errors made, should they occur, will be fully disclosed as soon as reasonably practicable after they are identified. The Group undertakes regular meetings with Tax Authorities to discuss tax matters and business developments.

Uncertain Tax Positions

Froneri performs regular assessments to identify and quantify Uncertain Tax Positions. Such assessments are always completed in accordance with the relevant accounting standards and are discussed in detail with Froneri management and our auditors.

Further details of the Group's risks and management policy, including hedging policies, are provided in the relevant notes to the consolidated financial statements.

Research and development

There are numerous ongoing research and development projects at each of the Group's main locations, primarily concentrated on new ice cream designs and recipes.

Financial instruments

Financial instruments are set out in note 25 to the annual report.

Proposed dividend

The Board of Managers do not recommend the payment of a dividend.

Purchase of own shares

As at 31 December 2020, the Company does not hold any of its own shares.

Consolidated management report (*continued*)

The Board of Managers

The Board is responsible for the overall operations of the Group, including the approval of the strategic plan, annual budget, changes to the Group's financing arrangements, acquisitions and disposals, material contracts and significant capital expenditure and contractual commitments.

Managers who held office during the year and up to the date of signing the financial statements were:

- Philip Mellor (resigned 19 February 2020)
- Marcello Mattia (resigned 19 February 2020)
- Francois Nadin (resigned 19 February 2020)
- Luis Cantarell (Former Chairman) (appointed 19 February 2020, resigned 1 January 2021)
- Patrice Bula (Current Chairman) (appointed 19 February 2020, appointed as Chairman 1 January 2021)
- Ibrahim Najafi (Chief Executive Officer) (appointed 19 February 2020)
- Sanjay Bahadur (appointed 19 February 2020)
- Frédéric Stévenin (appointed 19 February 2020)
- Colm O'Sullivan (appointed 19 February 2020)
- Martin Glenn (appointed 19 February 2020)
- Guillaume Leblanc (appointed 19 February 2020)
- Laurent Freixe (appointed 19 February 2020)

A group restructuring exercise was completed ahead of the acquisition of Dreyer's on 31 January 2020 and the related refinancing. An interim Board with representatives of Froneri (Marcello Mattia), Nestlé (Philip Mellor) and PAI (Francois Nadin) was put in place to manage the acquisition and restructuring. Following successful completion of that activity, on 19 February 2020, the permanent representatives of the relevant shareholders and the Froneri CEO were formally appointed to the Board and the interim Board members resigned.

Luis Cantarell is the former Executive Vice President and Head of Zone EMENA, within Nestlé. He retired from this position on 31 December 2016 after a career of 40 years within the Nestlé group. He held management positions within Nestlé in Nestlé Nutrition, Health Science, Zone Americas, Zone Europe and Strategic Business Division, among others. He is currently a board member of international companies in Spain, Denmark and the USA. Luis resigned from the Board with effect from 1 January 2021 and has been replaced as Chairman by existing Board member Patrice Bula.

Patrice Bula was Executive Vice President at Nestlé SA, responsible for the Strategic Business Units, Marketing, Sales and Nespresso up to his retirement from that role at the end of February 2021. Prior to this, he has held various management roles within Nestlé including roles in China, Germany, southern Africa, Japan, the Czech Republic and Slovakia. He has been with Nestlé since 1980.

Ibrahim Najafi has served as Chief Executive Officer of R&R since July 2013. On the merger of the former R&R and Nestlé businesses, which created Froneri, he became CEO of Froneri. Previously he was R&R's European Chief Executive Officer and Group Chief Operating Officer from 2009 and 2006, respectively.

Sanjay Bahadur is Nestlé's Deputy Executive Vice President of Group Strategy and Business Development. Prior to this he was Senior Vice President and Global Head of Nestlé's Acquisition and Business Development department. He also served as CFO of the Greater China Region from 2004, CFO of Turkey & Central Asia Region from 1998 and CFO of Nestlé Hong Kong from 1994 to 1998. He joined Nestlé in 1982.

Frédéric Stévenin is a member of PAI Partners' Management Committee and was appointed Chief Investment Officer in 2017. He has been the partner in charge the Food & Consumer team from 2003 to 2020 and is also the partner of the Healthcare Sector Team since 2007. He first joined PAI in 1993 and spent five years in the Food & Beverage Sector Team.

Consolidated management report (*continued*)

The Board of Managers (*continued*)

In 1998, he joined Deutsche Bank / Bankers Trust in the European Acquisition Finance Group as a Director and subsequently as Managing Director. In June 2001, he returned to PAI, where he has been involved in a number of transactions including Atos Medical, B&B Hotels, Cerba Healthcare, Chr. Hansen, DomusVi, Elis, ELITech Group, Ethypharm, Froneri, Kaufman & Broad, Labeyrie Fine Foods, Marcolin, Panzani-Lustucru, Refresco, Roompot, Provimi, Saeco, United Biscuits and Yoplait.

Colm O'Sullivan joined PAI in 2006 where he is a member of the Investment Committee. Since 2008 he has headed PAI's UK office. He was previously at Deutsche Bank where he spent eight years in the Financial Sponsors' group. He joined the Froneri board in 2013 when PAI acquired R&R. Colm is also currently a non-executive director of VPS and M Group Services. He has been involved in several transactions including United Biscuits, Kwik Fit, Perstorp, Froneri M Group Services and VPS.

Martin Glenn is Chairman of the Football Foundation, a public-private partnership between government and football to improve the provision of football facilities in England. He was Chief Executive of the English Football Association from 2015 until 2019. Prior to that he was CEO of United Biscuits and CEO of the Birds Eye Iglo Group from 2006 to 2012 and worked in the snack foods division of PepsiCo for 15 years in a variety of leadership roles.

Guillaume Leblanc joined PAI in 2011 and is a member of the Business Services and Retail & Distribution teams. He is a Co-Head of the Investment Group and a member of the Business Services team. He has been involved in several transactions including AS Adventure, Euro Media Group, Froneri, Innovista Sensors, Refresco, Roompot and World Freight Company. Guillaume started his career at a private equity firm involved in growth capital transactions in the TMT industry. He graduated from HEC in 2008.

Laurent Freixe is Executive Vice President and Chief Executive Officer of Zone Americas (USA, Canada, Latin America and the Caribbean) at Nestlé. Prior to this he has held several leadership positions within Nestlé as the CEO of Zone Europe and the CEO of the Iberian Region. He is currently serving on the Board of Cereal Partners worldwide as a representative of Nestlé and he is Chair of the Global Apprenticeship Network (GAN).

Marcello Mattia was Chief Financial Officer of the Froneri Group between June 2018 and 1 October 2020, replaced by current CFO, Ivar Blanken. He was formerly CFO of Peters, a business acquired by the R&R Ice Cream Group. Prior to that he was CFO of various public companies in Australia.

Philip Mellor is Head of Legal M&A at Nestlé. Phil has acted as Company Secretary to the Froneri Joint Venture since its inception.

Francois Nadin joined PAI in 2016 and is a member of the Finance Team based in Luxembourg.

Board Committees

There were four Board Committees in Froneri Lux Topco S.à r.l: (i) the M&A and Finance Committee; (ii) the Audit Committee; (iii) the Nomination and Remuneration Committee; and (iv) the Environmental, Social and Governance (ESG) Committee (the latter having been created on 1 September 2020).

The M&A and Finance Committee reports to the Board on opportunities to acquire or sell businesses and on the Group's funding needs. Its members comprise Sanjay Bahadur, Patrice Bula, Frédéric Stévenin and Colm O'Sullivan. The M&A and Finance Committee meets on an as needed basis.

The Audit Committee reports to the Board on accounts and audit matters. Its members comprise Colm O'Sullivan, Frédéric Stévenin, Sanjay Bahadur, Laurent Freixe and Martin Glenn.

The committee meets at least twice a year, at appropriate times in the reporting and audit cycle. In addition, the committee meets at such other times as the Board or the committee Chairman requires, or if requested by the Group's external auditors. Only committee members have the right to attend meetings but, in practice, other individuals, including members of the Group board and other members of the senior finance team are invited to attend all or part of meetings as and when appropriate to their area of expertise. The external auditors also attend certain meetings.

Consolidated management report (*continued*)

Board Committees (*continued*)

The committee's responsibilities include overseeing the relationship with the external auditor. It meets with them regularly, reviews the audit plan and discusses audit findings with them. The committee's responsibilities also include the evaluation of management's risk framework and communicating the importance of internal control and the management of risk.

The Nomination and Remuneration Committee oversees executive pay and appointments. The committee comprises Patrice Bula, Luis Cantarell (now resigned), Laurent Freixe, Colm O'Sullivan and Frédéric Stévenin. Froneri's CEO and Froneri's HR Director attend by invitation. Only committee members have the right to attend meetings, but other individuals are invited to attend from time-to-time, when appropriate.

The committee meets at least twice a year and at such other times as required. Its responsibilities include considering and making recommendations on the appointment of the CEO and CFO, determining remuneration and performance packages of the senior management team, and determining aggregate annual salary increases.

The ESG Committee assists the Board in developing and defining the Group's strategy relating to ESG matters. In addition, the committee monitors performance of the ESG strategy, develops and oversees the implementation of policies and procedures relating to ESG and makes recommendations in relation to internal controls relating to ESG. The committee reports to the Board on ESG matters on a half-yearly basis. The committee comprises Sanjay Badhadur, Martin Glenn, Laurent Freixe, Frédéric Stévenin and Colm O'Sullivan. The committee meets at least twice per annum.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year ended 31 December 2020.

Employees

The Group operates a framework for employee information and in line with the relevant regulations in each territory. Throughout the period, the Group has issued information on its website. The Group provides channels through which employees can express views and communicate regularly with senior management of the business. There are also a number of employee consultative committees and works councils to provide a forum for employees to air the views of their colleagues and discuss relevant issues.

The Group gives full consideration to applications for employment from disabled persons where the candidate displays particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. The Group seeks to continue the employment of, and arrange appropriate training for, any of the Group's employees who have become disabled during the period in which the Group employed them.

The Group offers a bonus scheme to eligible employees which is based around four key performance targets for the business: EBITDAE; sales; A-brand sales and cashflow. The scheme incentivises year-on-year delivery of Froneri's annual financial targets. This provides focus on key financial metrics and the individuals' contribution to their respective countries' performance through alignment of interests. Certain individuals will be incentivised based on Group performance as well as individual country performance.

On behalf of the board

Ibrahim Najafi
Manager

9, rue de Bitbourg
L – 1273 Luxembourg

30 April 2021



Audit report

To the Shareholders of
Froneri Lux Topco S.à r.l.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Froneri Lux Topco S.à r.l. (the "Company") and its subsidiaries (the "Group") as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

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

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information stated in the consolidated management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group'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 Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;



- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;
- conclude on the appropriateness of the Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Electronically signed by:
Vincent Ball

A handwritten signature in black ink, appearing to read 'Vincent Ball', written over a horizontal line.

Vincent Ball

Luxembourg, 30 April 2021

Consolidated Income Statement for the year ended 31 December 2020

	Note	2020 €m	2019 €m
Continuing operations			
Revenue	2	3,972.9	2,631.2
Cost of sales		<u>(2,444.1)</u>	<u>(1,520.6)</u>
Gross profit		1,528.8	1,110.6
Distribution expenses		(477.2)	(285.6)
Administrative expenses		<u>(775.7)</u>	<u>(611.0)</u>
Operating profit before exceptional items		349.3	289.3
Exceptional items – within Cost of sales		(7.6)	(16.9)
Exceptional items – within Distribution expenses		(6.8)	(3.2)
Exceptional items – within Administrative expenses		<u>(59.0)</u>	<u>(55.2)</u>
Total exceptional items	4	(73.4)	(75.3)
Operating profit after exceptional items	5	275.9	214.0
Financial income	7	13.3	47.1
Financial expenses	7	<u>(395.9)</u>	<u>(240.3)</u>
Net financing expense	7	(382.6)	(193.2)
(Loss)/profit before tax		(106.7)	20.8
Taxation	8	<u>(84.8)</u>	<u>(18.4)</u>
(Loss)/profit from continuing operations		(191.5)	2.4
Profit from discontinued operation	34	<u>46.3</u>	<u>5.7</u>
(Loss)/profit for the year		<u>(145.2)</u>	<u>8.1</u>
Attributable to Equity holders of the parent:			
(Loss)/profit for the year		<u>(145.2)</u>	<u>8.1</u>

The notes on pages 30 to 99 form an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2020

	Note	2020 €m	2019 €m
(Loss)/profit for the year		(145.2)	8.1
Other comprehensive (expense)/income			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences on retranslation of foreign operations		(182.6)	83.4
Exchange differences on retranslation of net investment in foreign operation		(62.4)	-
Cost of hedging		(3.9)	-
Loss on cash flow hedge		(9.8)	-
Net investment hedging		69.6	(17.8)
Income tax relating to these items	8	3.7	-
	24	(185.4)	65.6
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurements of defined benefit liability/asset before tax	22	(0.9)	(20.1)
Income tax relating to these items	8	0.7	1.4
Impact of hyperinflation		(2.1)	(10.9)
	24	(2.3)	(29.6)
Total other comprehensive (expense)/income for the year, net of tax	24	(187.7)	36.0
Total comprehensive (expense)/income for the year		(332.9)	44.1
<i>Total comprehensive (expense)/income arises from:</i>			
Continuing operations		(379.2)	38.4
Discontinued operations	34	46.3	5.7
		(332.9)	44.1

The total comprehensive (expense)/income for the year is attributable to the equity holders of the parent.

The notes on pages 30 to 99 form an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position at 31 December 2020

	Note	2020 €m	2019 €m
Non-current assets			
Intangible assets	9	5,243.8	2,307.4
Property, plant and equipment	10	1,166.4	762.2
Right-of-use assets	11	104.3	89.0
Trade and other receivables	17	21.9	-
Other financial assets	13	25.8	32.1
Deferred tax assets	14	95.5	71.6
		6,657.7	3,262.3
Current assets			
Inventories	15	426.7	314.1
Current tax receivables	16	11.0	11.9
Other financial assets	13	4.4	5.3
Trade and other receivables	17	518.4	418.1
Cash and cash equivalents	18	698.9	163.3
		1,659.4	912.7
Assets classified as held for sale	19	1.1	17.5
Total current assets		1,660.5	930.2
Total assets		8,318.2	4,192.5
Current liabilities			
Financial liabilities	20	64.1	38.8
Trade and other payables	21	941.3	637.8
Current tax liabilities	16	35.9	38.0
Provisions	23	34.6	43.2
		1,075.9	757.8
Non-current liabilities			
Financial liabilities	20	6,851.4	3,171.0
Trade and other payables	21	6.6	-
Employee benefits	22	64.7	70.2
Provisions	23	19.6	27.9
Deferred tax liabilities	14	593.6	176.2
		7,535.9	3,445.3
Total liabilities		8,611.8	4,203.1
Net liabilities		(293.6)	(10.6)
Equity attributable to equity holders of the parent			
Share capital	24	0.1	-
Share premium	24	568.4	327.3
Merger reserve	24	87.9	295.4
Hedging reserve	24	(14.0)	-
Currency translation reserve	24	(227.7)	(53.2)
Accumulated losses	24	(708.3)	(580.1)
Total equity		(293.6)	(10.6)

The financial statements on pages 25 to 99 were approved by the Board of Managers on 27 April 2021 and signed on its behalf by:

Ibrahim Najafi
Manager

The notes on pages 30 to 99 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Share capital €m	Merger Reserve €m	Share premium €m	Currency translation reserve €m	Hedging reserve €m	Accumulated losses €m	Total equity €m
Balance at 1 January 2019	-	295.4	323.3	(118.8)	-	(559.4)	(59.5)
Total contributions by and distributions to owners							
Issue of shares (note 24)	-	-	4.0	-	-	-	4.0
Share-based payment (note 22)	-	-	-	-	-	0.8	0.8
Total contributions by owners	-	-	4.0	-	-	0.8	4.8
Comprehensive (expense)/income for the year							
Profit for the year	-	-	-	-	-	8.1	8.1
Other comprehensive income (note 24)	-	-	-	65.6	-	(29.6)	36.0
Total comprehensive income for the year	-	-	-	65.6	-	(21.5)	44.1
Balance at 31 December 2019	-	295.4	327.3	(53.2)	-	(580.1)	(10.6)
Balance at 1 January 2020	-	295.4	327.3	(53.2)	-	(580.1)	(10.6)
Total contributions by and distributions to owners							
Issue of shares (note 24)	0.1	-	568.4	-	-	-	568.5
Share-based payment (note 22)	-	-	-	-	-	16.2	16.2
Reserve created as a result of group common control transaction (note 1.1 and 24)	-	(207.5)	(327.3)	-	-	-	(534.8)
Total contributions by owners	0.1	(207.5)	241.1	-	-	16.2	49.9
Comprehensive (expense)/income for the year							
Loss for the year	-	-	-	-	-	(145.2)	(145.2)
Other comprehensive expense (note 24)	-	-	-	(174.5)	(14.0)	0.8	(187.7)
Total comprehensive expense for the year	-	-	-	(174.5)	(14.0)	(144.4)	(332.9)
Balance at 31 December 2020	0.1	87.9	568.4	(227.7)	(14.0)	(708.3)	(293.6)

The notes on pages 30 to 99 form an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement for the year ended 31 December 2020

	Notes	2020 €m	2019 €m
Cash flows from operating activities			
EBITDAE	3	667.4	503.4
Adjustments for exceptional items (excluding impairments)	4	(70.3)	(66.2)
Cash flow before working capital and provisions		597.1	437.2
(Increase)/decrease in trade and other receivables		(63.1)	19.3
Decrease/(increase) in inventories		22.4	(13.8)
Increase/(decrease) in trade and other payables		238.8	(55.4)
Decrease in provisions and employee benefits		(12.9)	(26.6)
Decrease in financial assets		9.8	1.5
Operating cash flow		792.1	362.2
Interest paid		(162.5)	(66.3)
Tax paid		(80.7)	(35.6)
Net cash generated from operating activities		548.9	260.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		29.0	8.2
Interest received		4.0	0.4
Acquisition of subsidiaries, net of cash acquired	32	(3,657.5)	(316.6)
Proceeds from sale of subsidiary, net of costs incurred	34	84.1	-
Acquisition of property, plant and equipment		(129.2)	(149.4)
Acquisition of other intangible assets	9	(13.3)	(21.3)
Net cash used in investing activities		(3,682.9)	(478.7)
Net cash flow from operating and investing activities		(3,134.0)	(218.4)
Cash flows from financing activities			
Net inflow from the issue of share capital		59.7	4.0
Proceeds from new shareholder loan	20	540.9	-
Proceeds from drawdown of new Term loan debt	20	5,050.4	225.0
Repayment of external loans	20	(1,835.5)	(102.8)
Transaction costs in relation to new loans	20	(82.5)	(2.4)
Repayment of factoring	20	(1.0)	(3.7)
Payment of lease liabilities	20	(30.4)	(25.9)
Net cash generated from financing activities		3,701.6	94.2
Net increase/(decrease) in cash and cash equivalents		567.6	(124.2)
Cash and cash equivalents at 1 January		157.3	277.2
Effect of exchange rate fluctuations on cash held		(27.1)	4.3
Cash and cash equivalents at 31 December	18	697.8	157.3
Memorandum:			
Net cash flow from operating and investing activities		(3,134.0)	(218.4)
Acquisition of subsidiaries, net of cash acquired		3,657.5	316.6
Proceeds from sale of subsidiary, net of costs incurred		(84.1)	-
Exceptional operating items – cash flows		82.6	90.5
Free cash flow before acquisitions and exceptional operating items		522.0	188.7

Cash flows from discontinued operations are analysed in note 34.

The notes on pages 30 to 99 form an integral part of the consolidated financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

1.1 General

Froneri Lux Topco S.à r.l. (the "Company") is a private company limited by shares, incorporated, domiciled and registered in Luxembourg. The registered address is 9, Rue de Bitbourg, L-1273 Luxembourg, Grand Duchy of Luxembourg.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Group financial statements have been prepared and approved by the Board of Managers in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), interpretations issued by the IFRS Interpretations Committee (IFRS IC), and Luxembourg law applicable to companies reporting under IFRS.

The insertion of Froneri Lux Topco S.à r.l. as the ultimate parent company of the Group on 31 January 2020, was a Common control transaction. In accordance with merger accounting principles, we have:

- included comparative period values of the Froneri Limited Group which is now a direct investment of Froneri Lux Topco S.à r.l., as presented in the Froneri Limited consolidated financial statements for the year ended 31 December 2019
- included the results of the Froneri group for the full 12 months in the year ended 31 December 2020
- included the capital structure of Froneri Limited in the equity section of the prior year comparatives, as presented in the Froneri Limited consolidated financial statements for the year ended 31 December 2019
- reflected the capital structure of Froneri Lux Topco S.à r.l. at 31 December 2020, thereby creating a merger reserve

The accounting policies set out below have, unless otherwise stated, been applied consistently to the period presented in these Group financial statements.

The Group has also applied IAS 29 Financial Reporting in Hyperinflationary Economies to its Argentinian subsidiary. Accordingly, the results, cash flows and financial position of the Argentinian subsidiary have been expressed in terms of the measuring unit current at the reporting date. This is described further in notes 1.5 and 27 to the financial statements.

Judgements made by the Board of Managers that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.24.

Going concern

At 31 December 2020, the Group had net liabilities of €293.6 million (2019: €10.6 million).

The Board of Managers have considered this position, together with the company and the Group's budgets and positive net current assets position. These forecasts were then subject to a range of sensitivities including a severe but plausible scenario together with the likely effectiveness of mitigating actions. Such sensitives includes any impact of further restrictions due to COVID-19. Under these sensitivities, after taking mitigating actions, the Group continues to have a sufficient level of liquidity to continue in operation and meet its liabilities as they fall due. After making appropriate enquiries, the Board of Managers consider that the company has adequate resources to continue in operational existence for the foreseeable future and therefore adopt the going concern basis for the preparation of the financial statements.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: (a) all assets and liabilities subject to initial recognition at provisional fair value and revision to fair value under IFRS 3 Business Combinations in relation to the acquisition by Froneri Limited that created the Froneri Group of companies in 2016; (b) employee benefits assets and liabilities relating to post-employment arrangements; (c) derivative financial instruments; and (d) money market funds.

Notes (continued)

1 Accounting policies (continued)

1.2 Measurement convention (continued)

Non-current assets and disposal groups held for sale, where applicable, are stated at the lower of previous carrying amount and fair value less costs to sell. As stated in 1.1 above, the insertion of Froneri Lux Topco S.à r.l. as the ultimate parent company of the Group on 31 January 2020, was a Common control transaction and has been accounted for under the book value accounting approach.

1.3 Basis of consolidation

Subsidiaries and business combinations

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. The accounting policies of subsidiaries are changed as necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

1.4 Foreign currency

The functional currency of each Group entity is the currency of the primary economic environment in which the Group entity operates. The financial statements are presented in Euros, which is the presentational currency of the Group.

For Group entities which are not accounted for as entities operating in hyperinflationary economies, transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, the Euro, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year (or relevant period, where shorter) where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the net assets of the UK and Australian operations and the Group's functional currency (Euro). To the extent that the hedge is effective, foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in and accumulated in the currency translation reserve; any remaining differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the gain or loss on disposal. For long-term loans denominated in a foreign currency with a fellow Group undertaking, where the loan will not be settled in the foreseeable future, it forms part of the net investment in the foreign associate and exchange differences on these loans are recognised in other comprehensive income.

Notes (continued)

1 Accounting policies (continued)

1.5 Hyperinflationary economies

Several factors are considered when evaluating whether an economy is hyperinflationary, including the cumulative three-year inflation and the degree to which the population's behaviours and government policies are consistent with such a condition.

The balance sheet and results of the subsidiaries operating in hyperinflationary economies are restated for the changes in the general purchasing power of the local currency, using official indices at the balance sheet date, before translation into Euros and, as a result, are stated in terms of the measuring unit current at the balance sheet date.

On initial application of hyperinflation, prior period gains and losses are recognised directly in equity. An impairment loss is recognised in the income statement if the restated amount of a non-monetary item exceeds its estimated recoverable amount.

Gains or losses on the net monetary position are recognised in the income statement.

All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level in the current year. Differences between these comparative amounts and current hyperinflation adjusted equity balances are recognised in other comprehensive income.

The Argentinian economy has been classified as hyperinflationary. Accordingly, the results, cash flows and financial position of the Group's Argentinian subsidiary have been expressed in terms of the measuring unit at the reporting date. For further details, refer to note 27 to the financial statements.

1.6 Classification of financial instruments issued by the Group

Financial assets and liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned and are initially measured at fair value. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Debt instruments which meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cashflows; and
- The contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

If the business model is to both hold and sell financial assets, these assets meet the criteria to be measured at fair value through other comprehensive income. All other financial assets are measured at fair value through profit and loss. In the current year, the Group does not have any financial assets designated as fair value through other comprehensive income.

Notes (continued)

1 Accounting policies (continued)

1.6 Classification of financial instruments issued by the Group (continued)

An instrument is a liability when the Group can be required to deliver either cash or another financial asset to the holder. An instrument is classified as equity when it represents a residual interest in the net assets of the Group. Financial instruments issued by the Group are treated as equity only to the extent they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets, or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

The Group derecognises a financial asset only when the contractual rights to the cashflows from the assets expire or when the financial assets and substantially all the risks and rewards of ownership of the asset transfer to another party.

1.7 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, trade and other payables, and loans and borrowings.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The effective interest is the rate that exactly discounts estimated future cash receipts (including all fees and premiums/discounts) excluding expected credit losses, through the expected life of the debt instrument.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method, adjusted for any loss allowance.

As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for expected loss allowance based on past due status is not further distinguished between the Group's different customer segments.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, money market funds and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes (continued)

1 Accounting policies (continued)

1.7 Non-derivative financial instruments (continued)

Customer advances

Customer advances are those balances provided to concessionaires as part of an agreement to secure the sale of ice-cream from their outlet. These are classified as fair value through profit and loss and are initially recognised at fair value which is revised at each reporting period, with fair value movements due to amounts recovered through sales and customer difficulties reflected in the revised value with the difference posted to the Consolidated Income Statement.

1.8 Derivative financial instruments and hedging

Derivative financial instruments are measured at fair value. This fair value is determined on the basis of market data, available from external contributors. In the absence of an external benchmark, a valuation based on internal models recognised by market participants and favouring data directly derived from observable data such as Over The Counter quotations will be used.

The change in fair value of derivative financial instruments is recorded in the income statement except when they are designated as hedging instruments in a cash flow hedge or net investment hedge. In this case, changes in the value of the hedging instruments are recognised directly in equity, excluding the ineffective portion of the hedges. Sources of ineffectiveness may include, changes in credit risk of counterparties, change in the timing of the occurrence of the cash flows being hedged, change in the notional of the hedging instruments or items, i.e. the instruments are larger than the hedged items,

The Group uses derivative financial instruments to manage and reduce its exposure to market risks arising from fluctuations in interest rates, foreign currency exchange rates. The use of derivative instruments is governed by a Group policy for managing interest rate and currency risks. The Group's derivative instruments include currency forwards and swaps, interest rate swaps and cross currency interest rate swaps.

Hedging instruments: recognition and presentation

Derivative instruments qualifying as hedging instruments are recognised in the consolidated statement of financial position and measured at fair value. However, their accounting treatment varies according to whether they are classified as (i) a fair value hedge of an asset or liability; (ii) a cash flow hedge or (iii) a hedge of a net investment in a foreign operation. The fair value of the hedging instruments at 31 December 2020 reflects the cumulative change in the fair value of the hedging instruments since inception of the hedges.

1.9 Property, plant and equipment

Property, plant and equipment ("P,P&E") are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, less any estimated residual value. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 40 to 50 years
- Plant and equipment 3 to 15 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Assets in the course of construction are stated at cost. Depreciation is not charged until assets are brought into use.

Notes (continued)

1 Accounting policies (continued)

1.10 Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement award is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with market-based measure of the acquiree's awards and the extent to which the replacement awards to the pre-combination service.

Determination of fair values on business combinations

Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant and equipment is based on the quoted market prices for similar items or depreciated replacement cost where quoted market prices are not available.

Intangible assets

The fair value of intangible assets is calculated using methods which reflect the value that the Group would have paid for the assets in an arm's length transaction. Such methods include where appropriate, discounting estimated future net cash flows from the asset and applying multiples to royalty streams that could be obtained by licensing the intangible asset.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of the amounts to be received, determined at appropriate interest rates less allowance for expected credit losses and impairments. Discounting has not been applied to current receivables.

Notes (continued)

1 Accounting policies (continued)

1.10 Business combinations (continued)

Financial Instruments

The fair value of interest rate and foreign exchange derivatives is the estimated amount that the Group would receive or pay to terminate the derivative at the balance sheet date, taking into account current interest rates and foreign exchange rates and the current creditworthiness of the derivative counterparties.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of the amounts to be paid, determined at appropriate interest rates. Discounting has not been applied to current payables.

1.11 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Customer relationships 10 – 20 years
- Supplier relationships 10 – 25 years
- Brands and trademarks 20 years
- Computer software and development costs 3 – 10 years

Notes (continued)

1 Accounting policies (continued)

1.12 Leases

Froneri is party to lease contracts across the Group, which relate to office buildings, plant equipment, vehicles, warehouses and distribution centres to facilitate the storage, processing and transportation of ice-cream to its destination.

In 2018 the Group adopted IFRS 16 – Leases. The Group elected to apply the following exemptions whereby the following leases will be charged to the Consolidated Income Statement:

- Leases with a length of less than twelve months from the date of commencement; and
- Low value leases, defined as those where the price of the underlying asset as new is less than €5,000.

For all other lease agreements where a Group company is the lessee, the company recognises a right-of-use asset and a lease liability.

Right of use assets are measured using the cost model and depreciated in accordance with IAS 16 Property, Plant and Equipment on a straight-line basis over the lease term. The lease liability is measured at the present value of the remaining lease payments discounted at the incremental borrowing rate. On application the Group elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for accruals and prepayments. As a result of this there was no difference between the asset and liability to be recognised in retained earnings.

The incremental borrowing rate is the rate of interest that the Company would need to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The all-in discount rate used comprises margin and floating rate. Applicable margins have been determined by reference to existing margins on 3rd party loans which takes into account the credit worthiness of the entity. Floating rates have been sourced directly from Reuters for each applicable currency and relevant maturity which considers existing market conditions. At 31 December 2020 the weighted average incremental borrowing rate margin applied to the discount rates for new leases across the Group was 3.5%.

The treatment of non-lease components are assessed by class of underlying asset present within the lease. For vehicles, plant and equipment the value of the non-lease components are included within the lease payment used to derive the lease liability. For buildings (including offices, warehouses and distribution centres), the non-lease components are not included in the lease payment.

Where agreements contain extension or termination options which can be implemented by both parties, it is assumed that the date at which the agreement can be terminated without penalty is the end of the lease agreement. Leases which contain purchase options are reassessed where the likelihood of exercising the purchase option changes. Residual value guarantees do not have a significant impact on the Group's leasing arrangements.

The type of variable payment most prevalent within the Group are those present on vehicles relating to excess mileage, index-linked increases to building rental and annual percentage increases to certain buildings. These variable components are not considered to represent a significant financial risk to the Group in terms of volatility or quantum.

Where variable payments detailed in the lease agreement are those which cannot be readily determined at the measurement point of the lease, such as payments triggered by driving excess kilometres on a lease car, these amounts are charged to the Income Statement as they take place. Leases that contain variable indexed payments will prompt a remeasurement of the lease liability at the point at which the information regarding a change in the underlying index becomes available to adjust the present value of the lease agreement.

If a lease has been committed to but not yet commenced, this is included within the capital commitments note 28 to the consolidated financial statements.

Notes (continued)

1 Accounting policies (continued)

1.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out or weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.14 Impairment excluding inventories

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine if a provision needs to be made against the amount due for recovery. Under IFRS 9 a financial asset is impaired if, when considering the life of the amount receivable, we do not expect to recover the full amount of the balance. The impairment model reflects expected credit losses as opposed to incurred credit losses and is refreshed at each reporting date.

The Group has applied the simplified approach to recognise the lifetime expected losses for its trade receivables as permitted by IFRS 9. This expected lifetime credit losses impairment model applies to the Group's financial assets which are measured at amortised cost, which are primarily trade receivables.

There are no loans to related parties outside the Group to consider for calculating exposure to credit risk. Further information on credit risk is included in note 25 of these financial statements.

The expected credit losses on trade receivables are estimated using a provision matrix based on the individual country's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. This has been calculated on a by-country basis by local management.

Customer balances are considered for impairment by reference to the sales performance of the customer compared to the contracted targets as well as credit risk factors known about the customer and their expected performance.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the customer
- Breach of contract or non-payment and past due balances
- Bankruptcy of the customer or other financial reorganisation

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate and local regulatory requirements for writing off balances. Any recoveries made are recognised in profit or loss.

Notes (continued)

1 Accounting policies (continued)

1.14 Impairment excluding inventories (continued)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.15 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans and other post-employment benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Notes (continued)

1 Accounting policies (continued)

1.15 Employee benefits (continued)

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the cost of settling the obligation, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1.16 Provisions

A provision is recognised in the consolidated statement of position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes (continued)

1 Accounting policies (continued)

1.17 Revenue

Revenue is recognised from the transfer of goods at a point in time when control of the goods transfers to the customer in accordance with *IFRS 15: Revenue from Contracts with Customers*. This is considered to occur when the buyer can direct the use of the goods, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. For revenue included within the financial statements this is the point at which the customer assumes responsibility for the goods.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates where these are not considered to be linked to a separate performance obligation. Where a contract contains a promotional period linked to the sale of goods over time, this is treated as a separate performance obligation due to the different recognition periods.

In assessing if amounts represent a separate performance obligation the following factors have been considered:

- If the customer could separately benefit from any promotion offered to them by Froneri relating to a sale.
- If the additional goods and/or service is separately identified in the sales contract.
- Where incentives or penalties for the attainment of performance targets by customers are in place, these are considered to represent variable consideration. Such amounts are recognised at local management's best estimate of the value to be received based on the probability of the targets being met. This is reassessed at each reporting period.
- Discounts, credit notes, rebates, cash and price reductions are deducted from revenue as they do not represent distinct performance obligations. Where these are based on sales targets, revenue is recognised based on the likelihood of these targets being met, and where attainment is probable revenue is accrued for. This is reassessed at each reporting period.

1.18 Expenses

Variable lease payments

Payments made under lease arrangements which were not capitalised as part of recognition of the lease in accordance with IFRS 16 are recognised in the income statement in the period to which they relate within administrative expenses. Further detail on these payments is included in note 1.12 *Leases*.

Lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Notes (continued)

1 Accounting policies (continued)

1.19 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.20 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent re-measurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

1.21 Adoption of new and revised accounting standards

The following standards issued by the International Accounting Standards Board and adopted by the EU have been adopted by the Group however there is no material impact on the Group in the current year:

- *Definition of material – amendments to IAS 1 and IAS 8*
- *Definition of a business – amendments to IFRS 3*
- *Interest rate benchmark reform – amendments to IFRS 7, IFRS 9 and IAS 39*
- *Revised conceptual framework for financial reporting*

Notes (continued)

1 Accounting policies (continued)

1.22 New Standards and interpretations not yet adopted

The following interpretation has been published by the International Accounting Standards Board but is not mandatory for 31 December 2020 reporting periods. It has not been early adopted by the Group. On adoption, these changes are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions:

- *Insurance contracts – IFRS 17*
- *Covid 19 related rent concessions – amendments to IFRS 16*
- *Classification of liabilities as current or non-current – amendments to IAS 1*
- *Property, plant and equipment: proceeds before intended use – amendments to IAS 16*
- *Reference to the conceptual framework – amendments to IFRS 3*
- *Onerous contracts – cost of fulfilling a contract – amendment to IAS 37*
- *Annual improvements to IFRS standards 2018-2020*
- *Sale of contribution of assets between an investor and its associate or joint venture – amendments to IFRS 10 and IAS 28*
- *Uncertainty over income tax treatments - IFRIC 23*

1.23 Non-IFRS measures

Exceptional items

The Group presents as exceptional items on the face of the income statement those material items of income or expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation. Typically these would include M&A-related transaction costs, integration and restructuring costs and any material items that are one-off in nature. This allows users of the financial statements to better understand the elements of financial performance in the year, so as to better assess trends in financial performance.

EBITDAE

The Group uses EBITDAE as a measure to monitor the performance of the Group. The Group defines EBITDAE as operating result prior to net interest charges (or income), tax, depreciation and amortisation, and before exceptional items. There are no adjustments for the full year effect of acquisitions, mergers or other similar corporate transactions.

The use and disclosure of EBITDAE allows users to better understand the elements of financial performance and to better assess trends between periods.

Notes (continued)

1 Accounting policies (continued)

1.24 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported values of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other judgements reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Significant areas of estimate for the Group are:

- Estimates for discount factors and future cash flow projections are critical estimates used in impairment models to assess the carrying value of the Group's cash generating units, including goodwill. The assumptions and sensitivities considered are set out in note 9 to the consolidated financial statements.
- Estimates for discount rates, future salary increases and mortality rates are critical in valuation of defined benefit pension assets and liabilities, and similar post-retirement medical and other benefits. The actuarial assumptions and sensitivity analysis applied are set out in note 22 to the consolidated financial statements.
- Measurement of fair value of assets and liabilities acquired as part of business combinations. On the acquisition of businesses, significant judgments are required in respect of the fair value of intangible assets, such as customer relationships, the fair value of Property, plant and equipment and other assets. In 2020 a fair value exercise was undertaken in respect of the US and Puerto Rico acquisitions, as described in note 32. In particular, significant judgments have been made in respect of the valuation and useful economic lives attributed to Customer relationships. These were valued using the excess earnings method ("MEEM"), including assumptions in respect of future cash flow projections and attrition rates of customers.

Notes (continued)

2 Revenue

All of the Group's revenues for the year relate to the Group's primary activity: the production, distribution and sale of ice cream, frozen food and chilled dairy products and occur at a point in time. The Group manages its businesses based on geographic segments as reported to the management board.

	2020 €m	2019 €m
Revenue from continuing operations:		
Europe	1,850.1	2,027.6
USA	1,444.7	-
Rest of the world	678.1	603.6
	3,972.9	2,631.2

	2020 €m	2019 €m
EBITDAE from continuing operations:		
Europe	357.2	430.5
USA	196.2	-
Rest of the world	102.2	65.8
	655.6	496.3

Refer to note 3 for a reconciliation of (loss)/profit for the year to EBITDAE.

Notes (continued)

3 Reconciliation of net result to EBITDAE (Non-GAAP measure)

The Group defines EBITDAE as operating result prior to net interest charges (or income), tax, depreciation and amortisation, and which excludes the effect of significant items of income and expenditure which might have an impact on the quality of earnings, such as restructuring costs, legal expenses and impairments (exceptional items). There are no adjustments for the full year effect of acquisitions, mergers or other similar corporate transactions.

The Group's net result after taxation from continuing operations for the period reconciles to EBITDAE as follows:

	2020 €m	2019 €m
(Loss)/profit for the year from continuing operations	(191.5)	2.4
Taxation expense	84.8	18.4
(Loss)/profit before taxation from continuing operations	(106.7)	20.8
Net financing expense	382.6	193.2
Exceptional items (excluding exceptional impairments)	70.3	66.2
Operating profit before exceptional items from continuing operations	346.2	280.2
Depreciation – of owned assets	137.4	106.4
Depreciation – of leased assets	37.2	28.3
Impairment of property, plant and equipment	3.1	9.1
Amortisation – of acquired intangible assets	130.0	51.0
Amortisation – of other intangible assets (software)	10.9	8.5
(Gain)/Loss on disposal of fixed assets and assets held for sale	(9.2)	12.8
EBITDAE from continuing operations	655.6	496.3
EBITDAE from discontinued operations	11.8	7.1
Total EBITDAE for the year	667.4	503.4

4 Exceptional items (Non-GAAP measure)

The table below shows an analysis of the items separately disclosed on the face of the consolidated income statement. The Group considers exceptional items by reference to their nature, size or incidence, for separate disclosure and reporting of the underlying operating results of the Group. Exceptional items for the period are as follows:

2020	Within Cost of sales €m	Within Distribution expenses €m	Within Administrative expenses €m	Total €m
M&A-related transaction costs	-	-	32.1	32.1
Integration and restructuring costs	7.4	6.8	7.5	21.7
Other exceptional items	0.2	-	16.3	16.5
Sub-total excluding impairments	7.6	6.8	55.9	70.3
P,P&E and intangible impairments	-	-	3.1	3.1
	7.6	6.8	59.0	73.4

Notes (continued)

4 Exceptional items (continued)

2019	Within Cost of sales €m	Within Distribution expenses €m	Within Administrative expenses €m	Total €m
M&A-related transaction costs	0.3	(0.9)	21.1	20.5
Integration and restructuring costs	14.2	1.4	30.9	46.5
Other exceptional items	2.4	2.7	(5.9)	(0.8)
Sub-total excluding impairments	16.9	3.2	46.1	66.2
P,P&E and intangible impairments	-	-	9.1	9.1
	16.9	3.2	55.2	75.3

M&A-related transaction costs

In 2020 the Group recognised costs of €32.1 million (2019: €20.5 million) in respect of transaction costs for merger and acquisition activity, most notably the acquisition of Dreyer's in the USA and the related refinancing. 2019 included the acquisitions of Tip Top in New Zealand and Nestlé Israel's ice cream business.

Integration and restructuring costs

The Group has continued to implement a number of restructuring and integration projects across the countries. Total costs of €21.7 million have been incurred in the year, €13.5 million of which was in Germany and €6.5 million in USA. In the prior year, €46.5 million was incurred. The majority of the cost in 2019 relates to the continued consolidation of operations in France, Germany, Italy and Spain. The costs include redundancy costs, incremental outsourcing costs and dual running costs during closures.

Other exceptional items and goodwill impairments

2020 other exceptional costs includes €14.4 million in relation to payments made under the Group's Management Incentive Plan, following the USA acquisition. Such costs are exceptional due to their one off nature, with the costs arising due to the acquisition in the year.

In 2019 other exceptional costs include a credit related to a change by the pension provider of assumptions related to the conversion rate of the pension scheme in Switzerland. Whilst changes to pensions scheme assumptions are common, this has been included in exceptional items by virtue of its magnitude.

Notes (continued)

5 Operating profit after exceptional items

Included in the profit for the year are the following:

	2020 €m	2019 €m
Depreciation of property, plant and equipment:		
- Owned assets	137.8	106.8
- Right-of-use assets	37.2	28.3
Impairment of property, plant and equipment and ROU assets	3.1	9.1
Amortisation of intangible assets	140.9	59.5
Lease payments*	2.3	6.2
Research and development expensed as incurred	12.6	9.7
Net foreign exchange loss	8.3	3.7
(Gain)/loss on disposal of fixed assets	(9.2)	12.8
Exceptional items – excluding impairments (as further described in note 4)	70.3	66.2

The above analysis includes depreciation on discontinued operations in the year.

* Lease payments relate to those items not included in the calculation of the lease liability in accordance with IFRS 16. This includes short term leases of €1.6 million (2019: €1.4 million), low value leases and variable payments in relation to lease arrangements recognised in the Consolidated Statement of Financial Position of €0.7 million (2019: €4.8 million).

Auditors' remuneration

	2020 €m	2019 €m
Audit services		
Audit of the parent company and these financial statements	0.7	0.3
Audit of the company's subsidiaries	2.4	1.9
Other services to the company and its subsidiaries		
Taxation advisory services	-	0.2
All other services	0.3	3.7

Notes (continued)

6 Staff numbers and costs

The monthly average number of persons employed by the Group (including the Board of Managers) during the period, analysed by category, was as follows:

	Average number of employees 2020	Average number of employees 2019
Production	7,731	5,724
Sales, marketing and distributions	4,235	3,930
Administrative and other roles	1,588	1,561
	13,554	11,215

The aggregate payroll costs of these persons were as follows:

	2020 €m	2019 €m
Wages and salaries	539.6	373.8
Social security costs	69.4	69.0
Other pension costs	30.5	15.8
	639.5	458.6

Notes (continued)

6 Staff numbers and costs (continued)

The geographical location of employees at 31 December 2020 and 31 December 2019 is as follows:

	Number of employees 31 December 2020	Number of employees 31 December 2019
USA	2,539	-
Germany	1,906	2,032
Egypt	1,393	1,412
UK	975	989
France	695	756
Poland	647	632
Spain	560	615
Australia	403	390
Italy	388	405
Switzerland	378	459
Russia	371	346
Brazil	351	389
Israel	338	370
South Africa	329	322
Adriatics	329	240
New Zealand	216	331
Finland	159	144
Philippines	152	156
Argentina	141	145
Puerto Rico	74	-
Austria	72	80
Greece	72	74
Bulgaria	66	75
Romania	17	15
	12,571	10,377

The emoluments granted to the members of management bodies in this capacity are as follows:

	2020 €m
Emoluments – management bodies	0.3
	0.3

The entity does not have a supervisory body. No advances and loans were granted to any member of the management body.

In 2019, when the parent entity was Froneri Limited, total emoluments were €2.0 million.

Notes (continued)

7 Financial income and expenses

Finance income and expenses recognised in the consolidated income statement are as follows:

	2020 €m	2019 €m
Financial income		
Net monetary gain in Hyperinflationary economies*	2.5	12.9
Net gain on financial instruments designated as fair value through profit or loss	1.8	1.3
Foreign exchange gain	4.0	27.4
Other interest income	4.9	5.3
Interest income on bank deposits	0.1	0.2
Total financial income	13.3	47.1
Financial expenses		
Interest expense on shareholder loan notes	148.8	131.7
Interest expense on term loans	145.7	48.6
Foreign exchange loss	12.3	30.8
Interest expense on overdrafts and other short-term borrowings	7.8	9.8
Write-off of unamortised transaction costs related to term loans	5.0	-
Accrued dividend returns on preference shares	9.0	5.9
Interest expense on lease liabilities	6.5	5.6
Interest expense on shareholder loans	44.1	-
Other interest expenses	2.9	4.2
Amortisation of financing costs	11.0	0.8
Loss on derivative financial instruments	2.8	2.9
Total financial expenses	395.9	240.3
Net financing expense	382.6	193.2

* The net monetary gain of €2.5 million (2019: €12.9 million) is as a result of applying IAS 29 – Financial reporting in hyperinflationary economies in Argentina (see note 27).

Notes (continued)

8 Taxation

Taxation income and expenses recognised in the consolidated income statement are as follows:

	2020 €m	2019 €m
<i>Current tax expense</i>		
Current tax on losses/profit for the year	(87.7)	(43.2)
Adjustments for prior periods	1.1	(0.5)
Current tax expense	(86.6)	(43.7)
<i>Deferred tax income</i>		
Origination and reversal of temporary differences	(2.3)	25.4
Adjustment for prior years	2.5	(1.1)
Deferred tax income	0.2	24.3
Total tax expense	(86.4)	(19.4)
Income tax expense is attributable to:		
Loss from continuing operations	(84.8)	(18.4)
Profit from discontinued operations	(1.6)	(1.0)
	(86.4)	(19.4)

Income tax recognised in other comprehensive expense is as follows:

	2020 €m	2019 €m
Deferred tax changes on re-measurements of defined benefit pension liability	0.7	1.4
Deferred tax on foreign exchange differences arising on retranslation of net investment in overseas subsidiaries	4.0	-
Deferred tax on re-measurements of credit and liquidity risk on hedging arrangement	(0.3)	-
Income tax income recognised in other comprehensive expense	4.4	1.4

Notes (continued)

8 Taxation (continued)

Reconciliation of effective tax rate:

	2020 €m	2019 €m
Loss/(profit) before taxation on continuing operations	106.7	(20.8)
Profit before taxation on discontinued operations	(47.9)	(6.7)
	58.8	(27.5)
Tax using the Group corporation tax rate of 24.45%* (2019: 19.00%)	14.4	(5.2)
Effect of tax rates in foreign jurisdictions	(18.7)	10.3
Impact of change of tax rate on deferred tax	1.8	(2.0)
Non-deductible expenses and non-chargeable income	(69.5)	(7.1)
DTAs generated with no corporation tax impact	-	5.3
Current period losses for which no deferred tax asset was recognised	(18.0)	(19.1)
Under/over recovery in prior periods – current tax	1.1	(0.5)
– deferred tax	2.5	(1.1)
Total tax expense	(86.4)	(19.4)

*The Group corporation tax rate of 24.45% in 2020 represents a blended rate of 1 month of UK and 11 months Luxembourg taxation rates.

Current tax charge

The total current tax expense of €86.6 million (2019: €43.7 million) mainly relates to corporation tax payable by overseas entities.

Deferred tax income

The total deferred tax income of €0.2 million (2019: €24.3 million) mainly relates to the utilisation of deferred tax liabilities on the amortisation of intangible and tangible assets, which have been recognised as a result of the purchase price allocation exercise, offset by the utilisation of deferred tax losses against taxable profits arising in the year. Additionally, the property, plant and equipment impairments in the year to 31 December 2020 of €3.1 million (2019: €9.1 million) has a deferred tax impact.

The deferred tax balances within the UK Group have been recognised at the substantively enacted rate of 19% (2019: 19%) in respect of the UK tax group and at the prevailing rates in the case of overseas subsidiaries. In the UK Budget 2021, it was announced that the UK corporation tax rate will be increasing from 19% to 25% from April 2023. Had the 25% been substantively enacted at the balance sheet date, this would have reduced the Group's net deferred tax liabilities by €0.5 million at the balance sheet date.

Uncertain tax positions

The Group is required to estimate the corporation tax payable in each of the tax jurisdictions in which it operates. The recognition of tax benefits and assessment of provisions against tax benefits requires management to make estimates and judgements, based on tax rules which can be complex and subject to interpretation. Actual tax liabilities may differ from the provisions, as a result of tax audits, dialogue with tax authorities or changes in tax legislation. The Group currently has provisions of €16.7 million (2019: €13.3 million) in relation to uncertain tax positions. Following the creation of the Group in 2016, tax policies and procedures were introduced to further strengthen tax compliance across the Group's businesses. The Group takes steps to reduce risk on tax matters, including active engagement with tax authorities, and by working with professional tax advisors. Where areas of tax uncertainty exist in relation to transfer pricing, the OECD's work on the BEPS project has been closely reviewed to ensure transfer pricing risks are minimised. The Group will continue to examine all areas of taxation policy to ensure that all areas of tax uncertainty are identified and suitably managed.

Notes (continued)

9 Intangible assets

	Goodwill	Customer & supplier relationships	Brands and trademarks	Software	Total
	€m	€m	€m	€m	€m
Cost					
Balance at 1 January 2019	1,491.1	616.2	77.6	56.3	2,241.2
Acquired through business combinations	105.7	25.0	70.6	0.1	201.4
Other additions	-	0.8	-	20.5	21.3
Impact of hyperinflation (note 27)	1.4	1.0	-	0.1	2.5
Effect of movements in foreign exchange	36.8	24.6	3.9	0.1	65.4
Disposals	-	-	-	(0.2)	(0.2)
Balance at 31 December 2019	1,635.0	667.6	152.1	76.9	2,531.6
Balance at 1 January 2020	1,635.0	667.6	152.1	76.9	2,531.6
Acquired through business combinations	1,816.7	1,640.4	-	0.2	3,457.3
Other additions	-	0.4	-	12.9	13.3
Impact of hyperinflation (note 27)	0.9	0.7	-	0.1	1.7
Effect of movements in foreign exchange	(203.4)	(171.2)	(2.8)	(0.4)	(377.8)
Disposals	(29.0)	(11.4)	-	(0.2)	(40.6)
Balance at 31 December 2020	3,220.2	2,126.5	149.3	89.5	5,585.5
Accumulated amortisation and impairment					
Balance at 1 January 2019	31.9	109.3	8.9	11.0	161.1
Amortisation for the year	-	44.3	6.7	8.5	59.5
Impact of hyperinflation (note 27)	1.4	1.0	-	0.1	2.5
Effect of movements in foreign exchange	(1.9)	3.0	0.2	-	1.3
Disposals	-	-	-	(0.2)	(0.2)
Balance at 31 December 2019	31.4	157.6	15.8	19.4	224.2
Balance at 1 January 2020	31.4	157.6	15.8	19.4	224.2
Amortisation for the year	-	121.6	8.4	10.9	140.9
Impact of hyperinflation (note 27)	0.9	0.7	-	0.1	1.7
Effect of movements in foreign exchange	(9.3)	(11.4)	-	(0.4)	(21.1)
Disposals	-	(4.0)	-	-	(4.0)
Balance at 31 December 2020	23.0	264.5	24.2	30.0	341.7
Net book value					
At 1 January 2019	1,459.2	506.9	68.7	45.3	2,080.1
At 31 December 2019 and 1 January 2020	1,603.6	510.0	136.3	57.5	2,307.4
At 31 December 2020	3,197.2	1,862.0	125.1	59.5	5,243.8

Notes (continued)

9 Intangible assets (continued)

Amortisation and impairment charge

The amortisation and impairment charge is recognised in administrative expenses.

Excluding the intangible assets acquired as part of the Dreyer's transaction in 2020, the remaining average useful economic lives of the intangible assets at 31 December 2020 and 31 December 2019 were:

	2020 Years	2019 Years
Customer relationships	10.4	11.4
Brands and trademarks	16.9	17.9
Software	2.7	3.7

In relation, to the intangible assets acquired as part of the Dreyer's transaction in 2020, the following useful economic lives remain at 31 December 2020:

	2020 Years
Customer & supplier relationships	19.1

Goodwill is not amortised but systematically tested for impairment at each balance sheet date. Finite life intangible assets are tested when there is an indication of impairment.

The annual impairment tests are performed at the cash generating unit ("CGU"), or groups of CGU level. The Group defines its CGU for goodwill impairment testing based on the way it monitors and derives economic benefits from the acquired goodwill. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with their recoverable amount, based on their value in use, which corresponds to their future projected cash flows discounted at an appropriate pre-tax rate of return. The cash flows correspond to estimates made by Group management in financial plans and business strategies covering a period of three years. They are then projected to perpetuity using a multiple which corresponds to a steady growth rate. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rate reflects the current assessment of the time value of money and the risks specific to the CGU (essentially country risk). The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates include inflation.

The following eight CGUs have been considered as significant with regards to the total goodwill for which detailed results are presented hereafter: USA, United Kingdom, Australia, Germany, France, New Zealand, Spain and Switzerland.

	Goodwill 2020 €m	Goodwill 2019 €m
USA	1,619.5	-
UK	359.3	379.8
Australia	274.3	272.7
Germany	234.3	234.3
France	223.8	223.8
New Zealand	90.9	92.9
Spain	75.2	75.2
Switzerland	71.1	99.5
Subtotal	2,948.4	1,378.2
as % of total carrying amount	92.2%	85.9%
Other CGUs	248.8	225.4
Total	3,197.2	1,603.6

Notes (continued)

9 Intangible assets (continued)

For each CGU the recoverable amount is higher than its carrying value. The recoverable amount has been determined based upon a value-in-use calculation. Cash flows have been projected over the next five years and have then been extrapolated using a steady terminal growth rate and discounted at a weighted average rate.

The following table summarises the key assumptions for each significant CGU:

	Period of cash flow projections	Annual sales growth	Annual margin	Long term growth rate	Pre-tax discount rate
USA	5 years	2.0% to 11.6%	Improvement	2.0%	4.8%
UK	5 years	-1.7% to 2.0%	Stable	1.5%	5.0%
Australia	5 years	0.2% to 5.0%	Stable	2.0%	4.9%
Germany	5 years	-3.0% to 0.9%	Improvement	2.0%	4.3%
France	5 years	-1.3% to 2.9%	Stable	2.0%	4.6%
New Zealand	5 years	0.2% to 5.2%	Improvement	2.0%	4.9%
Spain	5 years	16.8% to 22.4%	Improvement	2.0%	5.2%
Switzerland	5 years	0.0% to 2.1%	Stable	1.7%	4.4%
Other	5 years	-0.4% to 23.5%	Various	2.0%	4.6% to 25.5%

In the prior year, the following key assumptions were used:

	Period of cash flow projections	Annual sales growth	Annual margin	Long term growth rate	Pre-tax discount rate
UK	5 years	2.2% to 7.9%	Stable	1.5%	5.9%
Australia	5 years	-1.3% to 2.1%	Stable	2.0%	5.5%
Germany	5 years	-9.5% to -0.5%	Improvement	2.0%	5.5%
France	5 years	-1.8% to 2.7%	Improvement	2.0%	5.9%
New Zealand	5 years	1.4% to 1.5%	Improvement	2.0%	5.5%
Spain	5 years	1.7% to 2.1%	Stable	2.0%	6.9%
Switzerland	5 years	-0.9% to 0.0%	Stable	1.7%	5.5%
Other	5 years	1.2% to 9.8%	Various	2.0%	5.8% to 11.4%

The next largest country in the 'other' category above is Italy which had a carrying value of goodwill of €62.2 million at 31 December 2020 (2019: €62.2 million).

The pre-tax discount rates have been computed based on external sources of information.

The cashflows for the first three years were based upon financial plans approved by Management which are consistent with the Group's approved strategy for this period. They are based on past performance and current initiatives. The years 4 to 5 and terminal growth rates have been determined to reflect the long-term view of the nominal evolution of the business with consideration given to economic forecasts of each respective country.

For all CGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the CGU's recoverable amount to fall below the carrying value of the CGUs.

Notes (continued)

10 Property, plant and equipment

	Land and buildings €m	Plant and equipment €m	Under construction €m	Total €m
Cost				
Balance at 1 January 2019	313.9	529.0	98.9	941.8
Acquired through business combinations	36.8	47.5	13.0	97.3
Other additions	10.4	74.2	58.3	142.9
Movement in assets under construction	44.9	52.7	(97.6)	-
Impact of hyperinflation	3.8	4.4	0.1	8.3
Transfer to assets held for sale	(15.0)	-	-	(15.0)
Disposals	(29.1)	(57.0)	(0.1)	(86.2)
Effect of movements in foreign exchange	5.2	12.6	(0.1)	17.7
Balance at 31 December 2019	370.9	663.4	72.5	1,106.8
Balance at 1 January 2020	370.9	663.4	72.5	1,106.8
Acquired through business combinations	205.5	231.3	38.0	474.8
Other additions	6.4	46.5	99.1	152.0
Movement in assets under construction	8.3	77.9	(86.2)	-
Impact of hyperinflation	2.5	3.0	-	5.5
Reclassification	(1.7)	1.9	(0.2)	-
Disposals	(8.5)	(33.8)	(7.1)	(49.4)
Effect of movements in foreign exchange	(32.4)	(57.7)	(6.3)	(96.4)
Balance at 31 December 2020	551.0	932.5	109.8	1,593.3

Notes (continued)

10 Property, plant and equipment (continued)

	Land and buildings €m	Plant and equipment €m	Under construction €m	Total €m
Accumulated depreciation and impairment				
Balance at 1 January 2019	63.1	220.0	0.8	283.9
Depreciation charge for the year	16.1	90.7	-	106.8
Impact of hyperinflation	3.8	4.4	0.1	8.3
Impairments	0.6	8.5	-	9.1
Disposals	(10.5)	(51.3)	-	(61.8)
Reclassification	0.8	(0.8)	-	-
Effect of movements in foreign exchange	(2.9)	1.3	(0.1)	(1.7)
Balance at 31 December 2019	71.0	272.8	0.8	344.6
Balance at 1 January 2020	71.0	272.8	0.8	344.6
Depreciation charge for the year	26.1	111.7	-	137.8
Impact of hyperinflation	2.5	3.0	-	5.5
Impairments	-	1.9	1.2	3.1
Disposals	(2.6)	(29.5)	-	(32.1)
Reclassification	-	0.2	(0.2)	-
Effect of movements in foreign exchange	(7.2)	(24.6)	(0.2)	(32.0)
Balance at 31 December 2020	89.8	335.5	1.6	426.9
Net book value				
At 1 January 2019	250.8	309.0	98.1	657.9
At 31 December 2019 and 1 January 2020	299.9	390.6	71.7	762.2
At 31 December 2020	461.2	597.0	108.2	1,166.4

Impairments

During the year, Property, plant and equipment impairments were recognised for €1.2 million in Germany, €1.3 million in France, with the remainder recognised in Spain and Greece.

The Group impaired €9.1 million of P,P&E in Brazil in 2019 relating to those assets purchased during the year ended 31 December 2019. No further impairment in Brazil was considered necessary in 2020.

Notes (continued)

11 Right-of-use assets

	Land and buildings €m	Plant and equipment €m	Motor Vehicles €m	Total €m
Cost				
Balance at 1 January 2019	68.4	10.4	30.1	108.9
Acquired through business combinations	7.5	0.8	-	8.3
Other additions	7.7	5.4	14.9	28.0
Lease liability adjustments	4.1	-	(0.2)	3.9
Disposals	(5.2)	(0.5)	(2.5)	(8.2)
Effect of movements in foreign exchange	1.4	0.1	0.2	1.7
Balance at 31 December 2019	83.9	16.2	42.5	142.6
Balance at 1 January 2020	83.9	16.2	42.5	142.6
Acquired through business combinations	18.1	1.0	-	19.1
Other additions	16.7	4.4	13.8	34.9
Reclassifications	2.3	(2.4)	0.1	-
Lease liability adjustments	4.1	0.1	(1.6)	2.6
Disposals	(9.5)	(2.6)	(10.1)	(22.2)
Effect of movements in foreign exchange	(5.1)	(0.6)	(0.3)	(6.0)
Balance at 31 December 2020	110.5	16.1	44.4	171.0
Accumulated depreciation and impairment				
Balance at 1 January 2019	15.2	2.7	8.9	26.8
Depreciation charge for the year	12.6	4.8	10.9	28.3
Disposals	(0.2)	(0.5)	(1.3)	(2.0)
Effect of movements in foreign exchange	0.4	-	0.1	0.5
Balance at 31 December 2019	28.0	7.0	18.6	53.6
Balance at 1 January 2020	28.0	7.0	18.6	53.6
Depreciation charge for the year	20.9	4.8	11.5	37.2
Disposals	(9.5)	(2.5)	(9.5)	(21.5)
Reclassifications	2.4	(1.6)	(0.8)	-
Effect of movements in foreign exchange	(2.3)	(0.2)	(0.1)	(2.6)
Balance at 31 December 2020	39.5	7.5	19.7	66.7
Net book value				
At 1 January 2019	53.2	7.7	21.2	82.1
At 31 December 2019 & 1 January 2020	55.9	9.2	23.9	89.0
At 31 December 2020	71.0	8.6	24.7	104.3

Notes (continued)

12 Investments in subsidiaries

The Group and Company have investments in subsidiaries as set out in the table below. The table is arranged by continent, then alphabetically by country and entity. The functional currency of each subsidiary is shown.

Subsidiaries	Registered address	Activity	Currency	Country of incorporation	Ownership interest
Europe:					
Froneri Austria GmbH	Europaplatz 4 4020 Linz	T	EUR	Austria	100%
Froneri Bulgaria EOOD	261 Lomsko shose Blvd. District Vrabnitsa 1220 Sofia	T	BGN	Bulgaria	100%
Froneri Finland Oy	PL 35, 02151 ESPOO Finland	T	EUR	Finland	100%
Froneri Development Center Glaces SAS	Zone Industrielle No2 Rue Charles TELLIER F – 60000 BEAUVAIS	R	EUR	France	100%
Froneri Beauvais SAS	Zone Industrielle No2 Rue Charles TELLIER F – 60000 BEAUVAIS	T	EUR	France	100%
Froneri Dange SAS	La Taille du Moulin à Vent - 86220 DANGE SAINT ROMAIN	T	EUR	France	100%
Pilpa SAS *	Kergamet BP 809 - 29208 Plouédern	D	EUR	France	100%
Froneri Holdings France SAS	Le Labour – B.P. 13, 33870 Vayres	H	EUR	France	100%
Froneri Vayres SAS	Le Labour – B.P. 13, 33870 Vayres	T	EUR	France	100%
Froneri France SAS	Le Labour – B.P. 13, 33870 Vayres	T	EUR	France	100%
Confitesse Backwaren Vertrieb GmbH	Wasserweg 39, 64521 Groß-Gerau	T	EUR	Germany	100%
Durigon Gelato GmbH	Eduard-Pestel Str 15, D- 49080 Osnabruck	D	EUR	Germany	100%
Erlenbacher Backwaren GmbH	Wasserweg 39, 64521 Groß-Gerau	T	EUR	Germany	100%
Froneri Deutschland Holding GmbH	Nordwestring 201 D-90419 Nürnberg	H	EUR	Germany	100%
Froneri Erlenbacher Immobilien GmbH & Co oHG	Wasserweg 39, 64521 Groß-Gerau	P	EUR	Germany	100%
Froneri Rus Holding GmbH *	Nordwestring 201 90419 Nürnberg	H	EUR	Germany	100%
Froneri Schöller GmbH	Nordwestring 201 D-90419 Nürnberg	T	EUR	Germany	100%
Froneri Schöller Immobilien GmbH & Co oHG	Nordwestring 201 D-90419 Nürnberg	P	EUR	Germany	100%
Froneri Schöller Produktions GmbH	Nordwestring 201 D-90419 Nürnberg	T	EUR	Germany	100%
Janny's Eis Franchise GmbH	Hittfelder Kirchweg 21, D-21220 Seevetal-Maschen	T	EUR	Germany	100%
L'italiano Ice Cream GmbH *	Eduard-Pestel Str 15, D- 49080 Osnabruck	D	EUR	Germany	100%
Nord-Eis-die Eisprofis GmbH *	Eduard-Pestel Str 15, D- 49080 Osnabruck	D	EUR	Germany	100%

Notes (continued)

12 Investments in subsidiaries (continued)

Subsidiaries	Registered address	Activity	Currency	Country of incorporation	Ownership interest
Froneri Ice Cream Deutschland GmbH	Eduard-Pestel Str 15, D-49080 Osnabruck	T	EUR	Germany	100%
Froneri Deutschland GmbH	Nordwestring 201 D-90419 Nürnberg	H	EUR	Germany	100%
R&R Holdings Deutschland GmbH	Eduard-Pestel Str 15, D-49080 Osnabruck	H	EUR	Germany	100%
Prima-Eis GmbH *	Eduard-Pestel Str 15, D-49080 Osnabruck	D	EUR	Germany	100%
Weidenglück UG (haftungsbeschränkt) & Co KG	Eduard-Pestel Str 15, D-49080 Osnabruck	H	EUR	Germany	100%
Froneri Hellas Ice-Cream SA	3, Kerkyras str., 17778 Tavros, Attika, Greece	T	EUR	Greece	100%
R&R Ice Cream Ireland Limited	25 - 28 North Wall Quay, Dublin 1. D01 H104	D	EUR	Ireland	100%
Froneri Holding Spa	Corso G. Garibaldi no. 49, 20121 Milan	H	EUR	Italy	100%
Eskigel Srl	Via Augusto Vanzetti no.11, 05100 Terni	T	EUR	Italy	100%
Froneri Italy Srl	Via Asi Consortile 7, n.16 Cap 03013, Ferentino (Fr)	T	EUR	Italy	100%
R&R Ice Cream Jersey Limited	44 Esplanade, St. Hellier, Jersey JE4 9WG	H	AUD	Jersey	100%
Froneri Lux Finco S.à r.l.	9, Rue de Bitbourg, L-1273 Luxembourg, Grand Duchy of Luxembourg	H	EUR	Luxembourg	100%
Froneri Malta Limited *	Pantar Road, Lija, Malta	D	EUR	Malta	100%
Froneri Polska Sp zoo	Ul. Wojska Polskiego 3, 39-300 Mielec	T	PLN	Poland	100%
Froneri Ice Cream Romania SRL	Bucuresti-Ploiesti 1A, Cladirea B, Parter, Sector 1, Bucuresti, 013681	T	RON	Romania	100%
Froneri Rus LLC	Russian Federation, 115054, Moscow, Kosmodamianskaya naberezhnaya, 52, bld. 1, 4 floor, ap. 2, office 4	T	RUB	Russia	100%
Froneri Adriatic doo Stara Pazova	Stara Pazova, Banovački put bb, 22300, Belgrade, Stara Pazova	T	RSD	Serbia	100%
Froneri Iberia SL	Zona Industrial Araia, C/ Intxerdui, 5, 01250 ARAIA (Álava)	T	EUR	Spain	100%
Froneri Switzerland SA	Blumenfeldstrasse 15, 9403 Goldach, Switzerland	T	CHF	Switzerland	100%

Notes (continued)

12 Investments in subsidiaries (continued)

Subsidiaries	Registered address	Activity	Currency	Country of incorporation	Ownership interest
Froneri Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	H	EUR	United Kingdom	100%
Froneri International Limited (formerly Froneri International plc)	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	H	EUR	United Kingdom	100%
Froneri South Africa Holdings Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	H	ZAR	United Kingdom	100%
Froneri UK Finco (NZD) Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	H	NZD	United Kingdom	100%
Kelly's of Cornwall Limited	Lucknow Road, Walker Lines Estate, Bodmin, Cornwall, PL31 1EZ	D	GBP	United Kingdom	100%
New R&R Ice Cream Limited *	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	D	EUR	United Kingdom	100%
Froneri UK Finco Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	H	USD	United Kingdom	100%
R&R Ice Cream UK Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	T	GBP	United Kingdom	100%
R&R PIK Limited (formerly R&R PIK plc) *	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	D	EUR	United Kingdom	100%
Richmond Foods Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	H	GBP	United Kingdom	100%
Richmond Ice Cream Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	D	GBP	United Kingdom	100%
Riviera Acquisitions Limited *	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	D	EUR	United Kingdom	100%
Riviera Topco Limited *	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	D	EUR	United Kingdom	100%
Ruby Acquisitions Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	H	GBP	United Kingdom	100%
Windsor Creameries Manufacturing Limited	Richmond House, Leeming Bar, Northallerton, North Yorkshire, DL7 9UL	D	GBP	United Kingdom	100%

Notes (continued)

12 Investments in subsidiaries (continued)

Subsidiaries	Registered address	Activity	Currency	Country of incorporation	Ownership interest
Africa:					
Froneri Ice Cream Egypt SAE	Summit 250, 90 El Shamaly Street, 5th Settlement, New Cairo	T	EGP	Egypt	100%
Froneri South Africa (Pty) Limited	14 Spanner Road, Clayville, Olifantsfontein, Gauteng 1665	T	ZAR	South Africa	100%
Rest of the world:					
Froneri Argentina SA	Av. Leandro N. Alem 356, Piso 13º - Buenos Aires, Argentina	T	ARS	Argentina	100%
Australasian Food Group Pty Ltd	254 Wellington Road, Mulgrave, Victoria 3170	T	AUD	Australia	100%
Mulgrave LeaseCo Pty Ltd	254 Wellington Road, Mulgrave, Victoria 3170	D	AUD	Australia	100%
New Holdco Pty Ltd	254 Wellington Road, Mulgrave, Victoria 3170	H	AUD	Australia	100%
Food MezzCo Pty Limited	254 Wellington Road, Mulgrave, Victoria 3170	H	AUD	Australia	100%
Peters Food Group Pty Limited	254 Wellington Road, Mulgrave, Victoria 3170	H	AUD	Australia	100%
Riviera (Aus) Pty Ltd	254 Wellington Road, Mulgrave, Victoria 3170	H	AUD	Australia	100%
Riviera Holdings (Aus) Pty Ltd	254 Wellington Road, Mulgrave, Victoria 3170	H	AUD	Australia	100%
Froneri Brasil Distribuidora de Sorvetes e Congelados Ltda	Estrada dos Bandeirantes 4935, Jacarepaguá, CEP 22775-113, Rio de Janeiro	T	BRL	Brazil	100%
Froneri Israel Ltd	Hamelacha 6, Lod, Israel	H	ILS	Israel	100%
Noga Ice Cream Ltd	Hamelacha 6, Lod, Israel	T	ILS	Israel	100%
Noga Ice Creams Limited Partnership	Hamelacha 6, Lod, Israel	H	ILS	Israel	100%
Froneri NZ Ltd	113 Carbine Road, Mount Wellington, Auckland 1060, New Zealand	H	NZD	New Zealand	100%
Tip Top Ice Cream Company Ltd	113 Carbine Road, Mount Wellington, Auckland 1060, New Zealand	T	NZD	New Zealand	100%
Tip Top Investments Ltd	113 Carbine Road, Mount Wellington, Auckland 1060, New Zealand	H	NZD	New Zealand	100%
Froneri Philippines Inc	National Highway, Barangay Tibag, Pulilan, Bulacan, Philippines, 3005	T	PHP	Philippines	99.998%

Notes (continued)

12 Investments in subsidiaries (continued)

Subsidiaries	Registered address	Activity	Currency	Country of incorporation	Ownership interest
Payco Foods Corporation	Carr. #2 km 15.1, Calle C #42 Zona Industrial Corujo Bayamon PR 00961	T	USD	Puerto Rico	100%
Froneri US, Inc.	5929 College Avenue, Oakland, CA 94618	H	USD	United States	100%
Dreyer's Grand Ice Cream Holdings Inc	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801	H	USD	United States	100%
Dreyer's Grand Ice Cream, Inc	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801	T	USD	United States	100%
The Haagen-Dazs Shoppe Company, Inc	The Corporation Trust Company, 820 Bear Tavern Road, 3rd Floor West Trenton, NJ 08628	T	USD	United States	100%

H – denotes an intermediate holding or financing company

D – denotes a dormant company

P – denotes a property investment company

R – denotes a research and development company

T – denotes a company with the principal activity of the production, distribution and/or sale of ice cream and/or frozen confectionary and desserts.

* These entities were dissolved or liquidated in the year. Notice of liquidation was given for the UK entities in December 2020. Froneri Rus Holding GmbH was merged in May 2020 with Froneri Schöller GmbH. L'Italiano Ice Cream GmbH and Prima-Eis GmbH were merged into Froneri Ice Cream Deutschland GmbH during the year. Nord-Eis-die Eisprofis GmbH was merged into R&R Holdings Deutschland GmbH during the year. Pilpa SAS was merged into Froneri Vayres SAS in December 2020.

Findus Switzerland AG was created as a subsidiary of the Group in the year. The frozen foods assets of Froneri Switzerland SA were contributed into this entity. The entity was sold on 31 December 2020 (see note 34).

Activities in the Philippines also include the manufacture and sale of chilled dairy products.

Weidengluck UG (haftungsbeschränkt) & Co KG and Noga Ice Creams Limited Partnership are limited partnerships.

Ownership interest in the above entities are all ordinary shares. Froneri Lux Topco S.à r.l. has 100% of the voting rights in all entities presented.

Certain local managers hold 0.002% of the ordinary share capital in Froneri Philippines Inc.

All controlled entities in the table above have been included in the Group consolidation.

Notes (continued)

13 Other financial assets

	2020 €m	2019 €m
Non-current		
Customer advances	20.9	30.6
Other financial assets	4.9	1.5
	25.8	32.1
Current		
Customer advances	3.5	5.3
Derivative financial instruments	0.9	-
	4.4	5.3

The Group recognises financial assets related to customer advances. The agreements vary but mainly relate to cash advances in respect of customer contracts in the Group's German and Brazilian out of home businesses and to the value of stock advanced to certain distribution customers in the Italian out of home business. The value of cash or stock advanced is recognised initially at fair value. Subsequent to initial measurement, the assets are carried at fair value through profit and loss for customers deemed at risk of recovery. Amounts are amortised to the profit and loss account within net sales over the respective contract period and based on the terms of the contract.

Notes (continued)

14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Assets	Liabilities	Liabilities	Net (assets) / liabilities	Net (assets) / liabilities
	2020	2019	2020	2019	2020	2019
	€m	€m	€m	€m	€m	€m
Property, plant and equipment	(0.3)	-	65.8	22.1	65.5	22.1
Other intangible assets	(0.2)	(0.1)	523.7	150.9	523.5	150.8
Inventories	(7.0)	(1.9)	0.7	1.3	(6.3)	(0.6)
Leased assets	(6.8)	(2.7)	-	-	(6.8)	(2.7)
Employee benefits	(13.5)	(12.0)	1.2	-	(12.3)	(12.0)
Provisions	(13.1)	(11.7)	0.1	0.2	(13.0)	(11.5)
Tax value of loss carry-forwards	(32.7)	(26.2)	-	-	(32.7)	(26.2)
Other items	(21.9)	(17.0)	2.1	1.7	(19.8)	(15.3)
Net tax (assets) / liabilities	(95.5)	(71.6)	593.6	176.2	498.1	104.6

Movement in net deferred tax assets and liabilities during the year:

	31 December 2019	On acquisition	Recognised in income	Recognised in equity	Foreign exchange movement	31 December 2020
	€m	€m	€m	€m	€m	€m
Property, plant and equipment	22.1	48.5	0.9	-	(6.0)	65.5
Other intangible assets	150.8	416.4	(1.8)	-	(41.9)	523.5
Inventories	(0.6)	(5.0)	(1.2)	-	0.5	(6.3)
Leased assets	(2.7)	(3.3)	(1.1)	-	0.3	(6.8)
Employee benefits	(12.0)	(1.4)	1.7	(0.7)	0.1	(12.3)
Provisions	(11.5)	(0.9)	(1.2)	-	0.6	(13.0)
Tax value of losses carried forward	(26.2)	(10.6)	2.9	-	1.2	(32.7)
Other items	(15.3)	(1.2)	(0.4)	(3.7)	0.8	(19.8)
Deferred tax liabilities/(assets)	104.6	442.5	(0.2)	(4.4)	(44.4)	498.1

Notes (continued)

14 Deferred tax assets and liabilities (continued)

Net deferred tax liabilities of €103.3 million (2019: €20.7 million) are expected to be settled within 12 months.

IAS 12 requires Froneri to recognise deferred tax assets, subject to a “probable profits” test. Where it is probable that there will be sufficient future profits to utilise either temporary differences or carried forward tax losses, then such deferred tax assets are recognised. To assess the availability of future profits, both future forecasts and historical performance are considered. Where this “probable profits” test is not met then a deferred tax asset will not be recognised.

Analysis of unrecognised deferred tax assets

	2020 €m	2019 €m
Trading losses	68.1	76.7
Other items	17.7	24.5
	85.8	101.2

15 Inventories

	2020 €m	2019 €m
Raw materials and consumables	105.4	83.1
Work in progress	3.7	1.0
Finished goods	317.6	230.0
	426.7	314.1

There are no inventories expected to be recovered in more than 12 months.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the period amounted to €1,751.3 million (2019: €1,008.5 million). The accumulated write-down of inventories to net realisable value amounted to €25.7 million (2019: €12.8 million) as at the year end.

16 Current tax receivables and liabilities

	2020 €m	2019 €m
Current tax receivables	11.0	11.9
Current tax liabilities	(35.9)	(38.0)
Net current tax liabilities	(24.9)	(26.1)

Notes (continued)

17 Trade and other receivables

	2020 €m	2019 €m
Current		
Trade receivables due from third parties	398.8	330.7
Trade receivables due from related parties	10.8	3.8
Prepayments and other receivables	108.8	83.6
	518.4	418.1
Non-current		
Prepayments and other receivables	21.9	-

Included within trade and other receivables are expected credit losses and impairments of €34.3 million (2019: €33.7 million).

18 Cash and cash equivalents

	2020 €m	2019 €m
Cash and cash equivalents per consolidated statement of financial position	698.9	163.3
Bank overdrafts	(1.1)	(6.0)
Cash and cash equivalents per cash flow statement	697.8	157.3

Cash and cash equivalents comprise cash balances, money market funds, overdrafts and call deposits.

19 Assets classified as held for sale

Assets held for sale

The Group's assets held for sale primarily comprises surplus properties which are being marketed for sale. The Group measures the fair value of these assets by reference to third party valuation reports. Change to the underlying fair value measurement in the period are shown in the table below.

	2020 €m	2019 €m
Assets classified as held for sale:		
Property, plant and equipment	1.1	17.5

The reconciliation of assets classified as held for sale for from the start to the end of the year is as follows.

	2020 €m	2019 €m
At 1 January	17.5	3.6
Transfers from Property, plant and Equipment	-	15.0
Disposed	(16.4)	(1.1)
At 31 December	1.1	17.5

Notes (continued)

20 Financial liabilities

This note provides information about the contractual terms of the Group's financial liabilities, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

	2020 €m	2019 €m
Non-current liabilities		
Term bank loans	4,774.4	1,818.1
Less: unamortised transaction costs	(71.4)	(5.0)
	4,703.0	1,813.1
Shareholder loan	532.5	-
Shareholder loan notes	1,377.8	1,229.0
Lease liabilities	85.8	73.6
Preference share capital	85.0	55.2
Derivative financial instrument	64.4	-
Other financial liabilities	2.9	0.1
	6,851.4	3,171.0
Current liabilities		
Bank overdrafts	1.1	6.0
Term bank loans	21.9	-
Other external debt	-	6.0
Current portion of lease liabilities	30.5	23.6
Factored borrowings	-	1.0
Accrued interest on term bank loans	-	1.4
Derivative financial instrument	7.9	-
Other financial liabilities	2.3	-
Other accrued interest	0.4	0.8
	64.1	38.8
Total financial liabilities	6,915.5	3,209.8
Add back: unamortised transaction costs	71.4	5.0
	6,986.9	3,214.8

Term bank loans are presented net of transaction costs of €71.4 million (2019: €5.0 million).

On 29 January 2020, the Group entered into a new Senior Facilities Agreement and Second Lien Facility Agreement. The new debt facilities were entered into to refinance the existing term loan facilities and complete the acquisition of Dreyer's (which completed on 31 January 2020).

Notes (continued)

20 Financial liabilities (continued)

The Group now has:

- USD 2.7 billion and €2.2 billion first lien term loans, maturing January 2027 (total outstanding €4.35 billion at 31 December 2020). The USD element has interest payable at 2.397%. The EURO element has interest payable at 2.625%.
- USD 245 million and €245 million second lien term loans, maturing January 2028 (total outstanding €445.7 million at 31 December 2020). The USD element has interest payable at 5.897%. The EURO element has interest payable at 5.75%.
- several cross-currency interest rate swaps, swapping USD 510m to circa £390m and USD 325m to circa A\$485m.
- a €600 million revolving credit facility which has a 6.5 year maturity, none of which was drawn at 31 December 2020.
- a \$600m shareholder PIK loan plus accrued interest (total outstanding €532.5 million at 31 December 2020)
- €1.24 billion shareholder loans plus accrued interest of €0.14 billion

Fair value of borrowings

The fair value is not materially different from its carrying amount for the majority of borrowings, because the interest payable is either close to market rates or the borrowings are of a short-term nature. The difference in relation to term bank loans is shown in the table below.

Terms and debt repayment schedule:

	Fair Value		Carrying Value	
	2020 €m	2019 €m	2020 €m	2019 €m
Term Bank Loans (a)	4,751.5	1,818.1	4,796.3	1,818.1
Other External Debt	-	6.0	-	6.0
Shareholder loan notes	1,377.8	1,229.0	1,377.8	1,229.0
Shareholder loan	532.5	-	532.5	-
Preference Shares	85.0	55.2	85.0	55.2
Lease Liabilities	116.3	97.1	116.3	97.1
	6,863.1	3,205.4	6,907.9	3,205.4

Note (a): Borrowings exclude transaction costs

The balances above have been recalculated from their local currencies at the applicable exchange rates at the balance sheet date. Accrued interest balances have been excluded in the case of the term loans. In the case of the shareholder loan notes and the preference shares, accrued returns are included because these returns are accrued, rather than paid in cash, and compound into the principal at each anniversary.

Notes (continued)

20 Financial liabilities (continued)

Summary of external net debt

The Group's financial liabilities includes amounts due to its shareholders, Nestlé SA and PAI Partners, in respect of shareholder loan notes of various forms, and also preference shares.

To better illustrate the Group's external, third party net borrowings, the table below summarises the Group's net external financial liabilities:

	2020 €m	2019 €m
Non-current financial liabilities		
Term bank loans (net of transaction costs)	4,703.0	1,813.1
Derivative financial instruments	64.4	-
Lease liabilities	85.8	73.6
Other financial liabilities	2.9	0.1
	4,856.1	1,886.8
Current liabilities		
Bank overdrafts	1.1	6.0
Term bank loans	21.9	-
Factored borrowings	-	1.0
Accrued interest on term bank loans	-	1.4
Other external debt	-	6.0
Current portion of lease liabilities	30.5	23.6
Other financial liabilities	2.3	-
Derivative financial instrument	7.9	-
Other accrued interest	0.4	0.8
	64.1	38.8
Cash and cash equivalents	698.9	163.3
Net borrowings from third parties	4,221.3	1,762.3

Lease Liabilities

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

Notes (continued)

21 Trade and other payables

	2020 €m	2019 €m
Current		
Trade payables due to related parties (note 30)	172.5	22.8
Trade payables due to third parties	297.5	260.0
Other payables, accrued expenses and deferred income	471.3	355.0
	941.3	637.8
Non-current		
Other payables, accrued expenses and deferred income	6.6	-

22 Employee Benefits

Employee remuneration

The Group's salaries and wages costs of €539.6 million (2019: €373.8 million) and welfare expenses (comprising social security and pensions costs) of €99.9 million (2019: €84.8 million) represent a total of €639.5 million (2019: €458.6 million). Employee remuneration is allocated by function to the appropriate expense headings.

Froneri Limited employee benefit scheme

At the prior year end, the Group had an equity settled share-based payment scheme in which certain employees had subscribed for D shares in Froneri Limited, the ultimate holding company of the Group at that time. As detailed in the Froneri Limited consolidated accounts for the year ended 30 December 2019, there were 105,770 shares in total allocated to individuals in the scheme. The aggregate fair value of the awards of €16.55 million under that scheme was being charged to the income statement to 31 December 2024. Following the acquisition of the Nestlé USA Ice Cream business and the insertion of the new holding company into the Group on 31 January 2020, it was agreed with the shareholders that employees could partly realise their D share holdings. This partial realisation necessitated an acceleration of the share-based payment charge during the year. A charge of €14.6 million (2019: €0.8 million) has been included in administrative expenses in respect of this scheme in the year, of which €14.4 million has been recognised as exceptional (see note 4) (2019: €nil) due to the acceleration.

Froneri Lux TopCo S.à r.l. employee benefit scheme

During the year, the Group launched a new equity settled share-based payment scheme in which certain employees were eligible to subscribe for D shares in Froneri Lux TopCo S.à r.l., the ultimate holding company of the Group. Under the scheme, employees must be employed by the Group at a defined exit date to realise a return of value on the shares granted. The return is determined as the share proceeds received as a result of an exit event (e.g. Sale of the Group) and after the subscription value and a return of 12% has been paid to the holders of the ordinary and preference share capital. The return is calculated based on an equity value hurdle and a ratchet mechanism, which produces a calculation percentage depending on whether a target return is achieved.

In 2020, 2,628,686 D shares were issued to individuals at a value of €0.40 per share. At 31 December 2020 there were 2,628,686 D shares in total allocated to individuals in the scheme.

The fair value of the 2020 shares subscribed was calculated using the Monte Carlo model. The shares subscribed were in two tranches, in January 2020 and December 2020. The tranches are expected to vest on 31 December 2023, the Group's current best estimate of an exit event. As a non-listed entity, the Group has used the historic volatility of a listed comparator group over the expected term of the award, with adjustment to derive volatility assumptions of 25% for the January 2020 tranche and 30% for the December 2020 tranche. The model assumes that the dividend yield is zero and a risk-free rate has been used based on the returns on zero coupon German government debt with redemption rates commensurate to the expected term of the award.

Notes (continued)

22 Employee Benefits (continued)

The resultant aggregate fair value of the awards of €8.2 million is being charged to the income statement to the revised exit date of 31 December 2023 over a weighted average vesting period of 3.85 years. A charge of €1.6 million has been included in administrative expenses in respect of this scheme in the year.

Pension and post-employment medical and other benefit plans

The Group's net employee benefit liabilities as at 31 December 2020 amounted to €64.7 million (2019: €70.2 million), including €58.4 million (2019: €61.1 million) in respect of defined benefit pension plans. One employee benefit asset of €2.4 million was recognised in the financial statements as at 31 December 2020 (31 December 2019: Nil).

The Group has defined benefit plans in 17 of its territories and the schemes are different across the territories. The plans are either externally funded (in the form of independently administered funds) or unfunded. Actuarial advice is provided by external consultants and by actuaries employed by the Group in respect to these plans. The actuarial assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the country in which the plan is located and as a result the detail has been presented in aggregation and on a weighted average basis where appropriate.

As at 31 December 2020 the Group's plans in respect of Switzerland represent 65% (2019: 57%) of the total net defined benefit obligations, the next most significant scheme in the Group is in Germany which represents 12.5% (2019: 15.2%). The pension plan obligations in that territory are met via a contract with a collective foundation that offers a fully insured solution to provide a contribution-based cash balance retirement plan. Contributions are age related and expressed as a percentage of pensionable salary.

Pension costs charged to the income statement consists of service cost (current and past service cost, gains and losses arising from curtailment and settlement), administration costs (other than costs of managing plan assets), and net interest expense or income, which is presented as part of net financial income/(expense). The actual return less interest income on plan assets, changes in actuarial assumptions, and differences between actuarial assumptions and what has occurred are reported in other comprehensive income.

Risks related to defined benefit plans

The main risks to which the Group is exposed in relation to operating defined benefit plans:

- **Investment risk:** this is the risk that the pension plan investments do not meet the expected returns over the medium to long-term. The structure of the portfolios is reviewed and asset-liability matching analyses are performed on a regular basis. In Switzerland there is a guaranteed return on account balances of at least 0% (2019: 0%) per annum on the total account balance as well as the rate set by government (1.00% in 2020 and 2019) on the mandatory benefits. In order to minimise the risks, the Group has entered into a contract with an insurance provider which, in return for a premium, guarantees the benefits promised in the plan over the period of the contract. The Group retains overall responsibility for deciding on such fundamental aspects as the level and structure of plan benefits at each contract renewal and remains responsible for providing benefits to members if the insurance contract is cancelled or the insurer is unable to meet its obligations.
- **Mortality risk:** the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plans' liabilities. In Switzerland the pension plan offers a lifelong pension in lieu of the cash balance lump sum upon retirement. The plan has defined rates for converting the lump sum to a pension and there is a risk that the members live longer than implied by their conversion rates. In order to minimise this risk, mortality assumptions are reviewed on a regular basis.

Notes (continued)

22 Employee Benefits (continued)

Asset-liability management and funding arrangement

The Group has funded defined benefit plans in 8 of its territories. The total excess of liabilities over funded obligations at 31 December 2020 amounted to €47.3 million (2019: €48.3 million).

In the case of the funded plans, plan trustees are responsible for determining the mix of asset classes and target allocations of the Group plans with the support of investment advisors and external consultants. The overall investment policy and strategy for the Group's funded defined benefit plans is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans.

In Switzerland the Group has entered into a contract with an insurance provider which, in return for a premium, guarantees the benefits promised in the plan over the period of the contract. At 31 December 2020 the Switzerland plan represents 61.3% (2019: 66.4%) and 68.4% (2019: 70.6%) of the Group's total funded plan assets and obligations.

Unfunded obligations

The Group has unfunded defined benefit pension plans in 10 of its territories. The total unfunded obligations at 31 December 2020 amounted to €16.6 million (2019: €21.4 million). These obligations are mainly in respect of defined benefit pension plan arrangements in Brazil and France, representing 71.2% of the total unfunded obligations (2019: France and Brazil, representing 64.8%).

Pension expense in the profit and loss account

	2020 €m	2019 €m
Defined benefit expenses	8.8	8.2
Defined contribution expense	21.7	7.6
	<u>30.5</u>	<u>15.8</u>

Amounts recognised in other comprehensive income

	2020 €m	2019 €m
Return on plan assets, excluding interest income	6.3	2.2
Actuarial gains arising on scheme liabilities	(7.2)	(22.3)
	<u>(0.9)</u>	<u>(20.1)</u>

Notes (continued)

22 Employee Benefits (continued)

Analysis of assets and liabilities recognised in the consolidated statement of financial position

	2020 €m	2019 €m
Present value of funded obligations	179.5	180.0
Fair value of plan assets	(132.2)	(131.7)
Excess of liabilities over funded obligations	47.3	48.3
Other		
Unfunded obligations	16.6	21.4
Unrecognised assets and minimum funding requirements	0.8	0.5
Total defined benefit liability	64.7	70.2

Movement in present value of defined benefit plan obligations

	Post-employment medical and other benefits €m	Defined benefit retirement plans €m	Total €m
Balance at 1 January 2019	4.3	168.6	172.9
Currency retranslations	(0.1)	4.8	4.7
Service cost	0.1	8.1	8.2
Interest cost	0.4	2.5	2.9
Actuarial gains	4.0	18.3	22.3
Benefits paid on funded defined benefit plans	-	(4.5)	(4.5)
Benefits paid on unfunded defined benefit plans	(0.1)	(1.2)	(1.3)
Liabilities extinguished on settlements	-	0.3	0.3
Reclassifications	-	2.5	2.5
Other movement	-	(6.6)	(6.6)
Balance at 31 December 2019	8.6	192.8	201.4
- of which funded defined benefit plans	0.6	179.5	180.1
- of which unfunded defined benefit plans	8.0	13.3	21.3
Balance at 1 January 2020	8.6	192.8	201.4
Currency retranslations	(2.4)	(0.5)	(2.9)
Service cost	0.3	8.8	9.1
Interest cost	0.5	1.4	1.9
Actuarial gains	(0.9)	8.1	7.2
Benefits paid on funded defined benefit plans	-	(4.1)	(4.1)
Benefits paid on unfunded defined benefit plans	(0.1)	(0.7)	(0.8)
Liabilities extinguished on settlements	-	(18.3)	(18.3)
Reclassifications	2.6	(2.6)	-
Other movement	(0.1)	2.7	2.6
Balance at 31 December 2020	8.5	187.6	196.1
- of which funded defined benefit plans	2.5	177.0	179.5
- of which unfunded defined benefit plans	6.0	10.6	16.6

Notes (continued)

22 Employee Benefits (continued)

Movement in fair value of defined benefit plan assets

	Defined benefit retirement plans €m
Balance at 1 January 2019	118.8
Currency retranslations	3.4
Interest income	1.9
Actual return on plan assets excluding interest income	2.2
Employee contributions	4.0
Employer contributions	5.7
Benefits paid on funded defined benefit plans	(6.8)
Other	2.5
Balance at 31 December 2019	131.7
Balance at 1 January 2020	131.7
Currency retranslations	(0.5)
Interest income	1.1
Actual return on plan assets excluding interest income	6.3
Employee contributions	4.8
Employer contributions	5.0
Benefits paid on funded defined benefit plans	(4.1)
Settlement	(12.0)
Other	(0.1)
Balance at 31 December 2020	132.2

As part of the disposal of the Swiss frozen foods business in the year a gain on settlement of €6.3 million was recognised. This has been included as part of the profit on discontinued operation (see note 34).

Plan assets

The major categories of plan assets as a percentage of total plan assets of the Group's defined benefit schemes were as follows:

	2020 %	2019 %
Cash and cash equivalents	1.4	1.9
Equity instruments	29.6	28.7
Debt instruments of which government bonds	38.4	36.3
Real estate	14.1	14.2
Hedge funds	4.7	5.5
Private equity	2.1	2.2
Alternative investments	9.7	11.2
	100.0	100.0

Equity, government debts and commodities represent 68.0% (2019: 64.9%) of the plan assets. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equity investments represent 30.6% (2019: 33.2%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

The Group expects to contribute €6.1 million (2019: €7.0 million) to its funded defined benefit plans in 2021.

Notes (continued)

22 Employee Benefits (continued)

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages of the present value of liabilities of the pensions funds of the Group as at 31 December 2019 and 2020):

	2020	2019
Discount rate at 31 December	1.0%	1.1%
Future salary increases	1.2%	1.8%
Future price inflation increases	0.8%	0.9%

In respect of the Group's pension plan in Switzerland, the principal actuarial assumptions at 31 December 2020 were: discount rate of 0.1% (2019: 0.3%); future salary increases of 1.6% (2019: 2.0%); and future price inflation of 1.0% (2019: 1.0%).

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables (for example PERM/F2000P for Spain and BVG2015 Generational for Switzerland) and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows – a current pensioner aged 65: 22 years (2019: 21 years) (male), 24 years (2019: 24 years) (female).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have (increased)/decreased as a result of a change in the respective assumptions:

	2020 €m	2019 €m
Discount rate minus 50 basis points	(19.2)	(19.8)
Discount rate plus 50 basis points	13.7	14.4
Future salary increases minus 50 basis points	4.3	4.3
Future salary increases plus 50 basis points	(4.2)	(5.3)
Mortality rate less one year	2.6	3.0
Mortality rate plus one year	(2.5)	(2.3)

In valuing the defined benefit liabilities of the pension funds at €196.1 million (2019: €201.4 million) mortality assumptions have been made as set out above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2020 would have increased by €2.5 million (2019: €2.3 million) before deferred tax.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation for each plan at 31 December 2020 and 31 December 2019 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Funding

The weighted average duration of the defined benefit obligation at the end of the reporting period is 19 years (2019: 19 years).

Defined contribution plans

The Group operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was €21.7 million (2019: €7.6 million). The significant increase in the year compared with 2019 is due to the USA business acquired during the year.

Notes (continued)

23 Provisions

	Integration and restructuring provisions €m	Employee benefits provisions €m	Litigation & Other provisions €m	Total €m
Balance at 1 January 2019	83.8	5.9	14.0	103.7
Provisions made during the year	16.1	0.9	4.5	21.5
Provisions used during the year	(46.0)	(0.6)	(9.1)	(55.7)
Provisions acquired during the year	-	0.2	1.5	1.7
Foreign currency adjustment	0.1	-	(0.2)	(0.1)
Balance at 31 December 2019	54.0	6.4	10.7	71.1
Non-current	18.9	2.8	6.2	27.9
Current	35.1	3.6	4.5	43.2
Balance at 31 December 2019	54.0	6.4	10.7	71.1
Balance at 1 January 2020	54.0	6.4	10.7	71.1
Provisions made during the year	26.7	0.1	3.6	30.4
Provisions acquired during the year	-	-	3.6	3.6
Provisions used during the year	(42.8)	(0.5)	(4.8)	(48.1)
Reclassifications	(1.6)	-	1.6	-
Foreign currency adjustment	(0.3)	-	(2.5)	(2.8)
Balance at 31 December 2020	36.0	6.0	12.2	54.2
Non-current	12.8	2.6	4.2	19.6
Current	23.2	3.4	8.0	34.6
Balance at 31 December 2020	36.0	6.0	12.2	54.2

Integration and restructuring costs

Provisions relating to restructuring and redundancies arise from the consolidation of operations, the implementation of operational improvements, realignment of the business model, manufacturing footprint and structural costs, and similar restructuring activities. Provisions made during the year primarily relate to continued reorganisation of operations in Germany (€13.1m) and €6.0 million of restructuring in the USA. Provisions utilised during the year mainly relate to the closure of the Beauvais site in France (€16.3m) which was announced at the end of 2018 for which there was €11.4 million remaining in provisions at the year end, costs relating to the reorganisation of operations in Germany (€13.1m) for which there was €12.9 million remaining in provisions at the year end and costs relating to the closure of an R&D facility in France (€4.9m) for which there was €6.6 million remaining in provisions at the year end. These provisions are expected to be utilised during 2021 and 2022.

Employee benefits provisions

Provisions for employee benefits relate to various in-work employment benefits.

In Australia, the Group holds provisions in respect of employee long service leave, whereby employees are entitled to 13 weeks of holiday after 15 years of service, and employees are entitled to a *pro rata* payment if they leave employment after seven years.

Notes (continued)

23 Provisions (continued)

Litigation & other provisions

Provisions for litigation costs relate to non-recurring legal cases and fees which are significant and unusual on the grounds of their magnitude or incidence. These circumstances behind these provisions are inherently uncertain as to potential risks, timing of financial impact and amount. These provisions are expected to be utilised during 2021 and 2022.

The impact of discounting on provisions is not material.

24 Share Capital and Reserves

Share capital – Froneri Lux TopCo S.à r.l.

	Called up share capital €m	Share premium account €m	Total €m
Shares issued for cash:			
- 44,747,557 A Shares of €0.001 each, 40,375,000 issued for €0.001 each and 4,372,557 issued for €39.76 each	0.1	173.8	173.9
- 44,747,557 B Shares of €0.001 each, 40,375,000 issued for €0.001 each and 4,372,557 issued for €39.76 each	-	173.9	173.9
- 4,571,769 CA Shares of €0.001 each, issued for €39.76 each	-	181.8	181.8
- 951,666 CB Shares of €0.001 each, issued for €39.76 each	-	37.8	37.8
- 2,628,686 D Shares of €0.001 each, issued for €0.40 each	-	1.1	1.1
On issue at 31 December 2020, fully paid	0.1	568.4	568.5

Share capital – Froneri Limited

	Called up share capital €m	Merger reserve €m	Share premium account €m	Total €m
Shares issued for cash:				
- 583,933 A Shares of €0.01 each, issued for €506.08 each	-	-	295.5	295.5
- 583,933 B Shares of €0.01 each, issued for €506.08 each	-	295.4	0.2	295.6
- 52,381 C shares of €0.01 each; issued for €506.08 each	-	-	26.5	26.5
- 105,850 D Shares of €0.01 each, 92,650 for €10.00 each and 13,200 for €300.00 each	-	-	4.9	4.9
- 127,272 deferred shares of €0.01 each, issued for €1.69 each	-	-	0.2	0.2
On issue at 31 December 2019, full paid	-	295.4	327.3	622.7

Ordinary shares

The Company has the following classes of ordinary shares: A Shares, B Shares, CA Shares, CB shares and D Shares. The rights attached to each of these classes of shares is as follows.

Voting rights

The A and B ordinary shares are entitled to voting rights, with one vote per share. The CA, CB and D ordinary shares do not have any voting rights.

Notes (continued)

24 Share Capital and Reserves (continued)

Ordinary shares (continued)

Income rights

Any sums which the Company may lawfully distribute to the holders of the A, B, CA, CB and D ordinary shares shall be distributed in accordance with the provisions relating to capital rights which are set out below.

Capital rights

On a return of capital, on a winding-up or otherwise, the assets of the Company available for distribution shall be applied, in priority to any payment to the other shareholders, in paying to the holders of the A Preference Shares and B Preference Shares an amount reflecting the amount subscribed (including share premium) plus a return of 12% per annum compounding annually on each anniversary of the merger completion date.

The remaining assets available for distribution after payment to the holders of the A Preference Shares and B Preference Shares shall be distributed as follows:

- First, to the holders of the A Shares, B Shares, CA shares and CB Shares until they have received such sum, which, when added to all of the amounts previously paid by the Company, is equal to the amount subscribed therefore plus such amount as is necessary to give the shareholders an amount equal to 12% per annum, compounding annually on each anniversary of the merger completion date;
- Thereafter, if the applicable ratchet (defined in the Company's articles of association) results in the value attributable to the A, B, CA and CB ordinary shares (on the one hand) and the D Shares (on the other) being reallocated in accordance with the tables and provisions of the ratchet article, in accordance with the terms of the ratchet article; or
- If the application of the ratchet article does not result in any change to the value attributable to the A, B, CA and CB ordinary shares (on the one hand) and the D shares (on the other), among the holders of the A, B, CA, CB and D ordinary shares *pro rata* to the number of A, B, CA, CB and D ordinary shares (treating them together, for these purposes, as a single class) held by each such holder.
- The ratchet conditions are dependent on the cash-on-cash return for the shareholders, the date of the exit event by comparison to the anniversary of the subscription date; and
- The percentage entitlement of the holders of the D Shares shall be contingent on (and determined by) the aggregate entitlement of the holders of the A, B, CA, CB with any *pro rata* reductions to these shareholders returns being applied to the returns for the holders of D Shares.

Notes (continued)

24 Share Capital and Reserves (continued)

Preference shares

The A Preference Shares and B Preference Shares are redeemable at any time at the option of the company, subject to investor consent and the terms of the Group's financing obligations. The preference shares are also redeemable in the event of an exit or on 31 January 2020. There is no premium on redemption. The holders of preference shares are entitled to receive cumulative dividends on redemption and are not entitled to vote at meetings of the Company. The economic features of the shares are the same as the shareholder loan notes. These shares are presented as debt within financial liabilities (note 20).

Issue of shares

In the year ended 31 December 2020, ordinary and preference shares were issued in Froneri Lux TopCo S.à r.l., as set out below:

	2020
	Total
	€m
40,375,000 A Shares of €0.001 each, issued for €0.001 each	-
4,372,557 A Shares of €0.001 each, issued for €39.76 each	173.9
40,375,000 B Shares of €0.001 each, issued for €0.001 each	-
4,372,557 B Shares of €0.001 each, issued for €39.76 each	173.9
4,571,769 CA Shares of €0.001 each, issued for €39.76 each	181.8
951,666 CB Shares of €0.001 each, issued for €39.76 each	37.8
2,628,686 D Shares of €0.001 each, issued for €0.40 each	1.1
63,382,265 A Preference Shares of €0.001 each, issued for €1.00 each	63.4
13,194,489 B Preference Shares of €0.001 each, issued for €1.00 each	13.2
	645.1

The total authorised capital of the Company amounts to €9.8 million.

In the year ended 31 December 2019, ordinary and preference shares in Froneri Limited were issued as set out below:

	2019
	Total
	€m
13,200 D Shares of €0.01 each, issued for €300.00 each	4.0
	4.0

Dividends

No dividends were declared or recognised during the year (2019: none).

Legal reserve

In accordance with Luxembourg Company Law, the Parent Company, Froneri Lux Topco S.à r.l. is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. As at 31 December 2020, the legal reserve amounts to €nil.

Notes (continued)

24 Share Capital and Reserves (continued)

Other reserves

	Merger Reserve	Currency translation reserve	Hedging reserve	Accumulated losses
	€m	€m	€m	€m
Balance at 1 January 2019	295.4	(118.8)	-	(559.4)
Total contributions by and distributions to owners				
Share-based payment (note 22)	-	-	-	0.8
Total contributions by owners	-	-	-	0.8
Comprehensive (expense)/income for the year				
Profit for the year	-	-	-	8.1
Exchange differences on retranslation of foreign operations	-	83.4	-	-
Net investment hedging	-	(17.8)	-	-
Remeasurement of defined benefit liability/asset before tax	-	-	-	(20.1)
Income tax on other comprehensive income	-	-	-	1.4
Impact of hyper inflation	-	-	-	(10.9)
Total comprehensive income for the year	-	65.6	-	(21.5)
Balance at 31 December 2019	295.4	(53.2)	-	(580.1)
Balance at 1 January 2020	295.4	(53.2)	-	(580.1)
Total contributions by and distributions to owners				
Share-based payment (note 22)	-	-	-	16.2
Reserve created as a result of group common control transaction	(207.5)	-	-	-
Total contributions by owners	(207.5)	-	-	16.2
Comprehensive (expense)/income for the year				
Loss for the year	-	-	-	(145.2)
Exchange differences on retranslation of foreign operations	-	(185.7)	-	3.1
Exchange differences on net investment in foreign operations	-	(62.4)	-	-
Cost of hedging	-	-	(3.9)	-
Loss on cash flow hedge	-	-	(9.8)	-
Net investment hedging	-	69.6	-	-
Remeasurement of defined benefit liability/asset before tax	-	-	-	(0.9)
Impact of hyper inflation	-	-	-	(2.1)
Income tax on other comprehensive income	-	4.0	(0.3)	0.7
Total comprehensive income for the year	-	(174.5)	(14.0)	(144.4)
Balance at 31 December 2020	87.9	(227.7)	(14.0)	(708.3)

Merger reserve

The merger reserve arises on the group reorganisations that have taken place, firstly in 2016 and then the subsequent reorganisation during 2020. The reorganisations have been accounted for as a common control transaction.

Currency translation reserve

The translation reserve comprises all foreign exchange differences arising since incorporation, arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in certain foreign subsidiaries.

Hedging reserve

The hedging reserve includes the cash flow hedge reserve and the costs of hedging reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently reclassified to profit or loss as appropriate.

Notes (continued)

25 Financial Instruments

25 (a) General

The Group's financial assets comprise cash at bank, customer advances, and trade receivables. The Group's financial liabilities comprise bank and other borrowings, financial lease obligations and trade and other payables. Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivatives are used to manage exposure to fluctuations in exchange rates and interest rates.

Credit risk

Credit risk arises on cash and cash equivalents and derivative financial instruments with banks and financial institutions, as well as on credit exposures to customers. See Note 25(c) for analysis of the trade receivables balance.

The Group limits counterparty exposures by monitoring each counterparty carefully and where possible, setting credit limits by reference to published ratings. The Group limits its exposure to individual financial institutions by spreading forward foreign exchange contracts and surplus cash deposits between several institutions.

The credit quality of customers is assessed considering their financial position, past experience and other factors. Credit limits are set for customers and regularly monitored. The Company aims to ensure that the maximum exposure to one financial institution does not exceed €150.0 million.

Interest rate risk

The Group has significant levels of floating rate borrowings and is therefore exposed to the impact of interest rate fluctuations.

The Group's policy on interest rate risk is designed to limit the Group's exposure to fluctuating interest rates. At present a zero floor is applied to the Group's €2,180 million first lien term loan (interest rate of 2.625%) and €245 million second lien term loan (interest rate of 5.75%). The Group is able to select an interest period of up to 6 months on its euro term loans without incurring any increase in the interest rate.

Froneri International Limited currently holds interest rate swaps totalling USD 740 million loans to fix the interest rate. Currently this is valued at a liability position of USD 11.2 million with the offset as a cashflow hedging reserve.

Cash at bank earns interest at floating rates based on market rates.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to these risks are primarily US Dollars (USD), Pounds Sterling (GBP), Australian Dollars (A\$) and Swiss Franc (CHF). There are 16 functional currencies within the Group, other than the Euro.

On 29 January 2020, the Group entered into a new €6.2 billion equivalent financing package through a new Senior Facilities Agreement and Second Lien Facility Agreement. The new debt facilities were entered into to refinance the existing term loan facilities and complete the acquisition of Nestlé's USA and Puerto Rico ice cream business (2019: A\$221.3, GBP 215 and R\$ 27.0 million). The facilities as at 31 December 2020 comprise: a €2,180.0 million senior term loan facility and a USD 2,656.7 million senior term loan facility, both with maturity dates of 31 January 2027; second lien term loan facilities of €245.0 million and USD 245.0 million, with maturities of 31 January 2028; shareholder loans of USD 600 million and €1240.0 million, with a maturity of 12 December 2029 and 31 January 2030; and a new €600.0 million multi-currency revolving credit facility, with a maturity of July 2026.

The Group also entered into a series of cross currency interest rate swaps, swapping USD 510.0 million to GBP 390.4 million and USD 325.0 million to AUD 485.4 million, in order to better match the underlying cashflows of the Group.

Notes (continued)

25 Financial Instruments (continued)

25 (a) General (continued)

The Group also typically uses contracts to mitigate foreign currency exposure on trading, particularly in respect of the UK business. At 31 December 2020 there were 37 such contracts (2019: 47 contracts) outstanding. The Board of Managers believe that the foreign exchange exposure in this regard does not present a material risk. The net fair value of these contracts at 31 December 2020 was an asset of €0.9 million (2019: €0.6 million).

From time to time if the Group has significant cash balances held within the Group holding companies, it enters into foreign exchange swap contracts to make sure it has resources in the currencies it needs at that time. These are typically of a one to three-month duration. At 31 December 2020, it had 9 such swaps outstanding (2019: 12) and the fair value of those swaps was a net financial asset of €0.7 million (2019: €0.3 million).

Liquidity Risk

The Group is exposed to the risk that it is unable to meet its commitments as they fall due. The Group has financial conditions imposed by its lenders which it must achieve in order to maintain its current level of borrowings. A single net debt covenant is tested quarterly commencing 31 December 2020. There have been no breaches of the covenants throughout the year.

The Group ensures that it has sufficient cash and available funding through regular cash flow and covenant forecasting. The Group has €698.8 million cash and cash equivalents and the Group has access to a revolving credit facility of €600.0 million, expiring in January 2026. This is available to finance working capital requirements and for general corporate purposes. Currently only €0.1 million of the RCF has been utilised for guarantees.

Capital management

One of the Group's objectives is to safeguard its ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and makes appropriate decisions based on the current economic conditions and strategic objectives of the Group.

The Group's capital comprises equity and long-term debt. The equity comprises fully paid up ordinary shares. The long-term debt predominantly comprises: the senior term loan facilities, shareholder loan notes, preference and finance leases. Intra-year funding requirements are managed through the Group's cash position, undrawn revolving credit facility and factoring facilities. At 31 December 2020 the Group had €599.9 million (2019: €339.9 million) of undrawn revolving credit facilities and €82.6 million (2019: €69.5 million) of undrawn factoring facilities available should they be required. There are no significant restrictions on the utilisation of the revolving credit facility. Any factoring facility drawings are restricted by the level of debtors outstanding at that time.

The AUD and GBP legs of the Cross Currency Interest Rate Swap ("CCIRS swap") allow the Group to match EBITDAE and cash flows to its borrowings and debt service obligations, in particular to provide a net investment hedge in respect of potential foreign exchange movements.

The Group's policy is to budget sufficient headroom in order to maintain compliance with the covenant set out in the senior facilities agreement such that any unforeseen circumstances are unlikely to result in a breach of that covenant. The financial covenant in the senior facilities agreement has not been tested in the period.

There has been no change in the objectives, policies or processes in respect of capital management during the year ended 31 December 2020.

Notes (continued)

25 Financial Instruments (continued)

25 (b) Fair values of financial instruments

The Group has various financial instruments that require use of valuation techniques to determine fair value. The techniques used in the fair value hierarchy can include:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has no financial instruments that fall into Level 1 of the fair value hierarchy.

Given the straightforward nature of the Group's financial instruments (assets and liabilities) and the short time period that had elapsed between when the Group's financing arrangements were put in place, the Group has adopted book values as the closest approximation to fair value in the case of its financial instruments except for the derivative financial instruments. The cross currency interest rate swap and the interest rate swap represent new financial instruments for 2020.

The derivative financial instruments have been valued according to level 2 of the hierarchy, by reference to published market prices of exchange rates. At 31 December 2020 the Group recognised net financial liabilities related to derivatives of €71.4 million (2019: €0.6 million).

At inception on 31 January 2020, the Group recognised a fair value of €14.2 million in relation to the eight cross currency interest rate swaps. This arose principally as a result of the lifetime credit risk of these instruments, as calculated at 31 January 2020. Since the derivatives were on market, this amount was offset in the accounts, to bring the value of these derivatives at inception to zero, with the €14.2 million to be unwound to the consolidated statement of profit or loss across the tenure of the derivatives. At 31 December 2020, the remaining fair value to be unwound is €11.6 million.

Notes (continued)

25 Financial Instruments (continued)

25 (c) Credit risk

Exposure to credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk at 31 December 2020 was in respect to trade and other receivables, arising from its ongoing trading operations. Where appropriate, the Group uses credit insurance to mitigate credit risk on its key customers in the retail channel. The Group does not hold collateral as security against credit risk. The concentration of credit risk for trade and other receivables at 31 December by geographic region was:

	2020 €m	2019 €m
Europe	220.2	262.6
USA	172.9	0
Rest of the world	147.2	155.5
	540.3	418.1

Credit quality of financial assets and impairment losses

The ageing of trade and other receivables at 31 December was:

	2020 €m	2019 €m
Not past due	467.7	308.6
Past due 0-30 days	23.3	31.0
Past due 31-60 days	7.8	13.5
Past due 61-120 days	1.9	11.5
More than 120 days	39.6	52.5
	540.3	418.1

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2020 €m	2019 €m
Balance at 1 January	34.1	27.2
Impairment loss on acquisition	0.1	
Impairment loss recognised	14.5	10.2
Impairment allowance utilised	(11.4)	(3.3)
Foreign exchange movement	(3.0)	-
Balance at 31 December	34.3	34.1

Notes (continued)

25 Financial Instruments (continued)

25 (c) Credit risk (continued)

A loss allowance account for trade receivables is used to estimate and record impairment losses which is considered to represent management's best estimate of the value of receivables recoverable over the life of the asset.

The Group also has other financial assets in respect of customer advances (see note 13). The agreements vary but mainly relate to cash advances in respect of customer contracts in the Group's German and Brazilian out of home businesses and to the value of stock advanced to certain distribution customers in the Italian out of home business. In both cases these customer arrangements are subject to credit checks and annual review of credit risk based on amounts outstanding at the period end. There are total impairment provisions of €11.8 million (2019: €3.7 million) against total balances of €36.2 million (2019: €39.6 million).

25 (d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

31 December 2020

	Carrying amount €m	Contractual cash flows* €m	1 year or less €m	1 to <2years €m	2 to 5 years and <5years €m	5 years and over €m
Term loans	4,724.9					
Add back: Transaction costs	71.4					
	4,796.3	4,796.3	21.9	21.9	61.0	4,691.5
Term loans – interest accrued	0.4	851.8	137.0	136.4	406.4	172.0
Shareholder loan notes	1,240.7	1,240.7	-	-	-	1,240.7
Shareholder loan notes – interest accrued	137.1	1,353.5	148.9	148.9	447.1	608.6
Nestlé finance loan	491.2	491.2	-	-	-	491.2
Nestlé finance loan – interest accrued	41.3	395.8	44.2	44.2	132.8	174.6
Preference shares classed as debt	76.6	76.6	-	-	-	76.6
Preference shares - interest accrued	8.4	84.7	-	-	-	84.7
CCIRS Derivative	63.1	63.1	-	-	63.1	-
Interest Rate Swap Derivative	9.2	9.2	-	-	9.2	-
Lease liabilities	116.3	116.3	30.5	24.1	34.4	27.3
Bank overdrafts	1.1	1.1	1.1	-	-	-
Trade payables, other payables and amounts due to related parties	947.9	947.9	941.9	0.6	0.6	4.8
	7,929.6	10,428.2	1,325.5	376.1	1,154.6	7,572.0

*Contractual cash flows represent undiscounted amounts

Transaction costs of € 80.8m were incurred as part of the Group's restructuring and the USA acquisition. As at 31 December 2020 € 10.7m has been amortised in the year. In addition, the carrying value of the unamortised transaction costs of €5m was written off for the term loans settled as part of the Group restructuring.

Notes (continued)

25 Financial Instruments (continued)

25 (d) Liquidity risk (continued)

31 December 2019

	Carrying amount €m	Contractual cash flows* €m	1 year or less €m	1 to <2years €m	2 to <5years €m	5 years and over €m
Term loans	1,813.1					
Add back: Transaction costs	5.0					
	1,818.1	1,818.1	-	-	-	1,818.1
Term loans – interest accrued	1.4	275.2	54.2	54.1	162.3	4.6
Shareholder loan notes	1,229.0	2,090.0	-	-	-	2,090.0
Preference shares classed as debt	55.2	89.6	-	-	-	89.6
Lease liabilities	97.1	97.1	23.6	10.5	31.5	31.5
Other external loans	6.0	6.0	6.0	-	-	-
Bank overdrafts	6.0	6.0	6.0	-	-	-
Factored borrowings	1.0	1.0	1.0	-	-	-
Trade payables, other payables and amounts due to related parties	637.8	637.8	637.8	-	-	-
	3,851.7	5,020.8	728.6	64.6	193.8	4,033.8

*Contractual cash flows represent undiscounted amounts

25 (e) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments

In managing market risks, the Group aims to minimise the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange rates and interest rates will have an impact on consolidated earnings. Froneri are managing the effects of the forthcoming IBOR reforms. In 2021 the Group plans to replace LIBOR with ARRs for all LIBOR referencing loans and derivatives contracts. The Group is not aware of any immediate plans to discontinue EURIBOR or BBSY

Market risk - foreign currency risk

The Group's exposure to foreign currency risk, including via derivative financial instruments, is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

Notes (continued)

25 Financial Instruments (continued)

25 (e) Market risk (continued)

Market risk - foreign currency risk (continued)

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to these risks are primarily US Dollars (USD), Pounds Sterling (GBP), Australian Dollars (AUD), Swiss Francs (CHF), New Zealand Dollars (NZD), and Brazilian Reals (BRL) (2019: Pounds Sterling (GBP), Australian Dollars (AUD), Swiss Francs (CHF), New Zealand Dollars (NZD), and Brazilian Reals (BRL)).

	USD	GBP	CHF	AUD	BRL	NZD	Other	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Market risk - foreign currency risk								
At 31 December 2020								
Cash and cash equivalents	436.5	6.0	42.9	13.4	9.7	11.7	85.1	605.3
Trade receivables and other receivables	160.6	31.4	13.1	64.5	22.8	16.6	55.3	364.3
Secured bank loans	(1,692.2)	(437.2)	-	(305.9)	-	-	-	(2,435.3)
Bank overdrafts	-	-	-	-	-	-	-	-
Trade payables and other payables	(257.3)	(31.8)	(28.9)	(61.2)	(20.4)	(20.6)	(92.1)	(512.3)
	(1,352.4)	(431.6)	27.1	(289.2)	12.1	7.7	48.3	(1,978.0)
At 31 December 2019								
Cash and cash equivalents	-	3.2	13.8	16.9	6.0	8.7	57.6	106.2
Trade receivables and other receivables	-	33.1	19.8	62.6	26.5	14.4	80.4	236.8
Secured bank loans	-	(254.5)	-	(138.6)	(6.0)	-	-	(399.1)
Bank overdrafts	-	-	-	-	-	-	(6.0)	(6.0)
Trade payables and other payables	-	(29.1)	-	(63.3)	(34.2)	(29.5)	(70.4)	(226.5)
	-	(247.3)	33.6	(122.4)	(7.7)	(6.4)	61.6	(288.6)

Sensitivity analysis

A 10 percent weakening of the following currencies against the Euro at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at 31 December and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

	Equity 2020 €m	Equity 2019 €m	Profit or loss 2020 €m	Profit or loss 2019 €m
USD	(131.6)	-	(4.8)	-
GBP	(19.7)	(21.6)	(3.7)	4.0
CHF	(11.5)	(5.9)	(2.7)	3.7
EGYP £	(6.1)	(8.1)	(0.1)	1.7
Other	(15.2)	(52.4)	1.2	(4.7)

Notes (continued)

25 Financial Instruments (continued)

25 (e) Market risk (continued)

Market risk - foreign currency risk (continued)

A 10 percent strengthening of the above currencies against the Euro at 31 December 2020 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Market risk – Interest rate risk

The Group has significant levels of floating rate borrowings and is therefore exposed to the impact of interest rate fluctuations.

If interest rates were greater than 1%, it is estimated that on an annualised 2020 basis, an increase or decrease of one percentage point in the interest rate charge on borrowings (excluding leases) would correspondingly decrease or increase the Group's loss before tax by approximately €41.1 million (2019 €18.6 million).

26 Notes to the cash flow statement

Reconciliation of cash and cash equivalents to net borrowings:

	Year ended 31 December 2020 €m	Year ended 31 December 2019 €m
Net inflow/(outflow) of cash and cash equivalents	567.6	(124.2)
Decrease in leases	30.4	25.9
Increase in borrowings	(3,754.3)	(118.6)
Other non-cash movements	(260.0)	(176.6)
Lease liabilities arising on acquisitions	(19.4)	-
FX movements	274.7	(12.4)
Increase in borrowings net of cash	(3,161.0)	(405.9)
Total net borrowings at 1 January (excluding transaction costs)	(3,049.1)	(2,643.2)
Total net borrowings at 31 December (excluding transaction costs)	(6,210.1)	(3,049.1)

Notes (continued)

26 Notes to the cash flow statement (continued)

Analysis of movement in borrowings

	As at 1 January 2020 €m	Cash flows €m	FX movements (b) €m	Arising on acquisition €m	Other non-cash movements (c) €m	As at 31 December 2020 €m
Bank overdrafts	(6.0)	5.1	(0.2)	-	-	(1.1)
Cash and bank deposits	163.3	560.7	(26.9)	1.8	-	698.9
Net cash and cash equivalents	157.3	565.8	(27.1)	1.8	-	697.8
Shareholder loan notes	(1,229.0)	-	-	-	(148.8)	(1,377.8)
Shareholder loan	-	(540.9)	52.5	-	(44.1)	(532.5)
Term loans	(1,818.1)	(3,220.9)	242.7	-	-	(4,796.3)
Preference shares classified as liabilities	(55.2)	0.5	-	-	(30.3)	(85.0)
Factored borrowings	(1.0)	1.0	-	-	-	-
Lease liabilities	(97.1)	30.4	6.6	(19.4)	(36.8)	(116.3)
Other borrowings	(6.0)	6.0	-	-	-	-
Total net borrowings excluding transaction costs (a)	(3,049.1)	(3,158.1)	274.7	(17.6)	(260.0)	(6,210.1)

(a) Borrowings exclude derivative finance instruments

(b) FX movements relate primarily to the USD tranches of the Term Loans.

(c) Other non-cash movements mainly relate to interest accrued on the Nestlé and PAI shareholder loan notes, accrued dividends in respect of the preference shares and new IFRS 16 lease obligations.

Total net borrowings are made up of external net borrowings of €4,724.9 million (€4,796.3 million gross of unamortised transaction costs) and related party borrowings of €1,995.3 million (shareholder loan notes, shareholder loan and preference shares). Offsetting the Term loans value at 31 December 2020 in the consolidated statement of financial position is €71.4 million of unamortised transaction costs.

27 Effects of hyperinflation

The Group considers that Argentina became a hyperinflationary economy on 1 July 2018, when the cumulative three-year increase in the Consumer Price Index exceeded 100%. Consequentially, the Group has applied IAS 29 *Financial Reporting in Hyperinflationary Economies* to its Argentinian subsidiary from 1 January 2018. This has resulted in a reduction of the 12-month sales by €1.2 million (2019: €0.7 million), and a non-monetary gain of €2.5 million (2019: €12.9 million) due to hyper-inflating the underlying values to their current purchasing power which was recognised in other finance income. The impact of €2.1 million (2019: €11.0 million) for the restatement of non-monetary assets and liabilities with the price index at the beginning of the period was recorded in equity.

Notes (continued)

28 Capital commitments

At 31 December 2020, the Group has entered into contractual commitments to purchase property, plant and equipment for €3.6 million (2019: €11.9 million), for which no provision has been made.

29 Contingencies

From time to time, in the normal course of trading, the Group may become subject to claims from third parties. The nature of such claims means they can take a long time to resolve. It is the Group's policy to investigate claims, and if a financial settlement is considered probable and the amount reliably estimable, provision is made.

30 Related parties

Nestlé SA

Nestlé SA and its subsidiaries are a significant shareholder in the ordinary shares of the Company and an investor in the Company's shareholder loan notes (see Note 20). Nestlé SA and its subsidiaries and affiliates are also a key trading partner for the Group in respect of (inter alia): licensing arrangements for key brands and trademarks, products and other intellectual property; raw materials and other production inputs; and transitional service arrangements between Nestlé SA and its subsidiaries and the former Nestlé businesses within the Froneri Group.

Transactions with Nestlé SA and its subsidiaries and affiliates in the period ended 31 December were as follows:

	Year ended 31 December 2020 €m	Year ended 31 December 2019 €m
Transitional services arrangements	40.3	12.9
Licence fees	167.1	82.0
Purchase of raw materials and other inputs	18.9	29.9
Other transactions	(2.4)	1.4
Income from logistics services	(11.1)	(12.1)
Ice cream sales to Nestlé	(6.3)	(11.6)
	206.5	102.5

In the consolidated statement of financial position at 31 December 2020, trade and other receivables include amounts due from Nestlé SA group of €10.8 million (2019: €3.8 million), trade and other payables include amounts due to Nestlé SA group of €172.5 million (2019: €22.8 million). All transactions with related parties during the normal course of business are at arm's length.

In addition, at 31 December 2020, €688.9 million (2019: €614.5 million) of the shareholder loan notes (including accrued interest) are payable to Nestlé SA and its subsidiaries and affiliates. At 31 December 2020, a shareholder PIK loan of €532.5 million, including accrued interest, is payable to Nestlé SA and its subsidiaries and affiliates.

On 31 January 2020, Froneri acquired the activities of Dreyer's in the USA and Payco Corporation in Puerto Rico, whose activities include the manufacture and sale of Nestlé branded ice cream products.

Notes (continued)

30 Related parties (continued)

PAI Partners

PAI Partners is a significant shareholder in the ordinary shares of the Company and an investor in the Company's shareholder loan notes. In the consolidated statement of financial position at 31 December 2020, €688.9 million (2019: €614.5 million) of the shareholder loan notes (including accrued interest) are payable to PAI Partners (or funds managed by PAI Partners). In the consolidated statement of financial position at 31 December 2020 and 31 December 2019, there are no balances within trade and other receivables and trade and other payables include amounts due to PAI Partners.

Transactions with key management personnel

The aggregate remuneration of the key management personnel (being the Board of Managers) for the period was as follows:

	Year ended 31 December 2020 €m	Year ended 31 December 2019 €m
Remuneration	4.8	5.3
Contributions to defined contribution pension schemes	0.4	0.4
Share based payment benefits	9.5	-
	14.7	5.7

The Board of Managers' remuneration is disclosed in note 6 to these financial statements.

31 Ultimate parent company

At the year end, the Company was the ultimate parent company of the Froneri group of companies.

No other group financial statements include the results of the Company.

On 31 January 2020, Froneri Lux Topco S.à r.l. became the ultimate parent company of the Group.

In the Board of Managers' opinion, there is no ultimate controlling party.

Notes (continued)

32 Acquisitions of subsidiaries

Acquisition of Dreyer's Grand Ice Cream Holdings, Inc and its subsidiaries (together "Dreyer's")

On 31 January 2020, Froneri acquired the entire activities of Dreyer's, a USA group, who has a portfolio of iconic and loved ice cream brands including Häagen-Dazs, Drumstick, Outshine, Nestlé Ice Cream, Dreyer's and Skinny Cow. The business was acquired for a value of \$4.018 billion (including final completion payments). The Group primarily acquired Dreyer's as a means of entering the USA ice cream market.

The acquired business contributed €1.4 billion to Group sales in the 11 months since acquisition, €195.7 million to Group EBITDAE and a €46.4 million profit to the Group's loss after tax. The Dreyer's group does not prepare local audited financial statements.

Effect of acquisitions

In the year ended 31 December 2020 the purchase price allocation exercise was completed, and the fair values of certain assets, liabilities and valuations were assessed and are final. The valuation of assets and liabilities acquired and their related adjustments are shown below.

	Fair Values on Acquisition €m
Property, Plant and equipment	472.9
Intangible assets	1,627.2
Inventories	170.4
Right of use assets	13.4
Trade and other receivables	27.3
Cash and cash equivalents	0.9
Non-current liabilities - Deferred tax liabilities	(437.5)
Non-current liabilities - Provisions	(3.6)
Lease liabilities	(13.5)
Current liabilities - Trade and other payables	(20.1)
Net identifiable assets and liabilities	1,837.4
 Residual Goodwill	 1,784.8
Total consideration	3,622.2
 Satisfied by:	
Fair value of consideration paid in cash	3,630.2
Completion adjustment repaid in January 2021	(8.0)
Total consideration	3,622.2
 Cash acquired	 (0.9)
Net cash outflow on acquisition	3,621.3

Goodwill arises on the acquisition due to the exclusive nature of the agreements with Nestlé and other third parties which allows to Froneri to manufacture and sell these brands. Goodwill also arises due to the attrition applied to customer relationships.

Notes *(continued)*

32 Acquisitions of subsidiaries *(continued)*

Fair value adjustments

Management reviewed the fair value of the following asset categories, and used the following basis of valuation in respect of each asset class:

- Customer relationships: excess earnings method ("MEEM"), sense checked using a cost to recreate approach
- Land and buildings: certain land was valued on a market values approach (which included significant judgements with respect to sales value). Buildings were valued using the cost approach
- Plant and equipment: valued using the cost approach, specifically primarily on reproduction cost, or indirect method
- Inventories: fair value, based on net realisable sales value, less reasonable costs to complete, distribute and sell the inventory, and a reasonable profit margin.

Deferred consideration

There was no deferred consideration as part of the transaction.

Acquisition related costs

The Group incurred costs of €25.6 million in relation to the transaction. These costs are predominantly transaction-related shared costs (such as consultants, legal fees and other advisors' fees and costs).

These costs have been for the most part included in administrative expenses in the Group's consolidated income statement, disclosed as exceptional items for the relevant period, and explained further in note 4 to these financial statements.

Contingent liabilities acquired

There were no contingent liabilities acquired as part of the transaction.

Notes (continued)

32 Acquisitions of subsidiaries (continued)

Acquisitions of Payco Corporation

On 31 January 2020, Froneri acquired the activities of Payco Foods Corporation, who manufactures Nestlé licensed ice cream products, in Puerto Rico. The business was acquired for a value of \$50.0 million. The Group acquired this business as a route to enter the Puerto Rico ice cream market.

The acquired business contributed €29.4 million to Group sales in the 11 months since acquisition, €4.3 million to Group EBITDAE and €0.3 million loss to the Group's loss after tax. According to its most recent audited financial statements (year ended 31 December 2019), the business generated annual sales of USD 35.2 million and annual profit after tax of USD 1.7 million.

Effect of acquisitions

In the year ended 31 December 2020 the purchase price allocation exercise was completed, and the fair values of certain assets, liabilities and valuations were assessed and are final. The valuation of assets and liabilities acquired and their related adjustments are shown below.

	Fair Values on Acquisition €m
Property, Plant and equipment	1.9
Intangible assets	13.4
Inventories	2.3
Trade and other receivables	2.9
Right of use assets	5.7
Cash and cash equivalents	0.9
Lease liabilities	(5.9)
Non-current liabilities - Deferred tax liabilities	(5.0)
Current liabilities - Trade and other payables	(3.0)
Net identifiable assets and liabilities	13.2
 Residual Goodwill	 31.9
Total consideration	45.1
 Satisfied by:	
Fair value of consideration paid in cash	45.1
Total consideration	45.1
 Cash acquired	 (0.9)
Net cash outflow on acquisition	44.2

Notes *(continued)*

32 Acquisitions of subsidiaries *(continued)*

Goodwill arises on the acquisition due to the exclusive nature of the agreements with Nestlé and other third parties which allows to Froneri to manufacture and sell these brands. Goodwill also arises due to the attrition applied to customer relationships.

Fair value adjustments

Management reviewed the fair value of the following asset categories, and used the following basis of valuation in respect of each asset class:

- Customer and supplier relationships: excess earnings method ("MEEM"), sense checked using a cost to recreate approach
- Land and buildings: certain land was valued on a market values approach (which included significant judgements with respect to sales value). Buildings were valued using the cost approach
- Plant and equipment: valued using the cost approach, specifically primarily on reproduction cost, or indirect method
- Inventories: fair value, based on net realisable sales value, less reasonable costs to complete, distribute and sell the inventory, and a reasonable profit margin.

Deferred consideration

There was no deferred consideration as part of the transaction.

Acquisition related costs

The acquisition related costs are included above in the amounts disclosed as part of the Dreyer's transaction.

Contingent liabilities acquired

There were no contingent liabilities acquired as part of the transaction.

Prior year acquisitions

The provisional fair values for the acquisitions made during 2019 are now final without having been adjusted in 2020.

33 Post balance sheet events

There are no significant post balance sheet events.

Notes (continued)

34 Discontinued operation

Description

On 9 November 2020, the Group announced its intention to sell the frozen foods element of its Swiss business. The business was sold with effect from 31 December 2020 and is reported in the current period as a discontinued operation. There are no disclosures required for any gain or loss on the measurement to fair value less costs to sell of the assets or disposal groups constituting the discontinued operations. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance and cash flow information

The financial performance and cash flow information presented are for the year ended 31 December 2020 and the year ended 31 December 2019.

	Year ended 31 December 2020 €m	Year ended 31 December 2019 €m
Revenue	78.7	74.9
Expenses	(67.9)	(68.2)
Profit before income tax	10.8	6.7
Income tax expense	(1.6)	(1.0)
Profit after income tax of discontinued operation	9.2	5.7
Gain on sale of the subsidiary after income tax	37.1	-
Profit from discontinued operation	46.3	5.7
Net cash inflow from operating activities	9.6	13.6
Net cash inflow from investing activities (2020 includes inflow from the sale of the division)	86.9	(0.8)
Net cash inflow from financing activities	(0.1)	-
Net increase in cash generated from discontinued operation	96.4	12.8

Details of the sale of the subsidiary

	31 December 2020 €m
Consideration received as cash	87.6
Carrying amount of net assets sold	(53.3)
Legal and Professional costs associated with disposal of business	(3.5)
Gain on settlement of defined benefit obligation	6.3
Gain on sale before income tax	37.1
Income tax expense on gain	-
Gain on sale after income tax	37.1

A defined benefit pension obligation of €6.3 million was also extinguished as part of the sale of the business. This occurred due to certain employees transferring as part of the sale, which reduced Froneri's pension obligations in respect of these employees.

Notes (continued)

34 Discontinued operation (continued)

The carrying amounts of assets and liabilities as at the date of sale (31 December 2020) were:

	31 December 2020 €m
Property, plant and equipment	6.8
Goodwill and other intangibles	36.4
Right of use assets	0.3
Inventories	10.4
Total assets	53.9
Financial liabilities	(0.5)
Provisions	(0.1)
Total liabilities	(0.6)
Net assets	53.3

Goodwill has been allocated to the sale of the business on a relative fair value basis.

35 Impact of COVID-19

Froneri is monitoring the ongoing COVID-19 situation in each of its operating countries across the globe and continues to take advice from the relevant experts, applicable country health authorities and the World Health Organization to determine its ongoing response and protective measures. The impact of COVID-19 on Froneri's customers and consumers has resulted in the closure of sales outlets in various countries operating in the 'out of home' segment as well as cafes, restaurants, bars and hotels. Revenue in these channels has been adversely impacted whereas revenue in the retail channel has been strong relative to expectations. Froneri's revenue in the out of home and cafes, restaurants, bars and hotels channels represents ~25% of revenues, the balance of which is in the retail channel.

Being a food manufacturer, in 2020 none of our operations have been required (by law) to shut down despite various lockdown restrictions having been enforced. We have not experienced major incremental supply chain or logistics challenges as a result of COVID-19. We have implemented various initiatives at sites to reduce the risk of COVID-19 spread. Such measures have included testing of employees, strict rules on visitors to sites, significantly enhanced cleaning, reduced business travel, home working for office staff and other general social distancing measures across our sites. Consequently, during 2020 we experienced only isolated instances of COVID-19 infection across the workforce. Cost mitigation strategies we have taken include: non-critical marketing activities paused, reduced headcount, reduced production volumes and temporary factory shutdowns, use of government initiatives, reduced discretionary spend and tight control of all overheads. In order to protect and preserve cash, we: put on hold non-essential capex, significantly reduced our stock levels in response to the anticipated reductions in demand, redoubled our efforts on cash collection, took advantage of government initiatives to defer payments where possible and managed payments to non-critical suppliers where possible.

At the time of writing, various countries are beginning to gradually remove restrictions. Froneri will closely monitor developments and assess the ongoing impact on its business.