THE GENERAL SOFT DRINKS COMPANY LIMITED

Annual Report and Financial Statements
31 December 2019

Company Registration Number: C 1591

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The company's principal activity, which is unchanged since last year, is the bottling and sale of soft drinks, mineral
water and other beverages.

Review of business

All the company's revenues are attributable to sales to a related party forming part of Mizzi Organisation, which acts as the sole point of focus for all customers of the Organisation's beverage activities. During 2019 the company saw a decrease in revenue to €32,600,157 from €33,099,659 in 2018, however at improved margins. In fact, gross profit increased from €14,043,826 in 2018 to €14,421,826 in 2019. After deducting distribution and selling costs as well as administrative expenses, which increased when compared to previous year, the company closed the year with an operating profit of €3,613,185 compared to €3,351,762 in 2018. Finance costs increased from €250,759 in 2018 to €368,335 in 2019. The company registered a profit for the financial year of €3,244,850 (2018: €3,101,003).

Within the company's statement of financial position, increases were noted in trade and other receivables. This increment in debtors, which management is not weary about, is composed of balances due from the same related party. An increase in assets and liabilities is also noted due to the adoption of IFRS16 on 1 January 2019, whereby as at 31 December 2019, 'Right-of-use assets' amounted to €2,234,908 and lease liabilities amounted to €2,215,462 on 1 January 2019.

During 2019, the company acquired a loan of €2,200,000 from Mizzi Organisation Limited which is and repaid €1,321,771 (2018: €597,028) in loan repayments. The total borrowings as at 31 December 2019 increased to €10,271,800 from €9,443,273 as at 31 December 2018.

The main priority areas for the Public Affairs and Communications (PAC) Office in 2019 were the Beverage Container Refund Scheme (BCRS), Zero Waste Program, Water Stewardship and the reduction of Sugar and Calories within beverages. In this regard our Company has worked with Government, various communities and organisations in Malta to support the development and introduction of BCRS; address packaging waste disposal through Zero Waste Program (funded through The Coca-Cola Foundation); promote and safeguard the sustainability of water through the Alter Aqua program (funded through The Coca-Cola Foundation), whilst also committing to help its consumers manage their sugar intake and to make the right decisions for them and their families.

In the beginning of 2018 Government initiated a consultation process on the introduction of a national BCRS that would entail the compulsory introduction of deposits on single use PET, glass and metal beverage containers. GSD took a leading role in bringing all the stakeholders together to submit a proposal to Government and which resulted in the signing of an MOU with Government in December 2018. The MOU envisages the setup of a Non-for-profit Company that will be owned by three associations representing Beverage Producers, Importers and Retailers. This Company will manage BCRS and work together with Government Agencies to reach ambitious Recovery and Recycling targets whilst keeping to a minimum the cost impact to consumers. During 2019 the regulations governing this deposit system were drafted between the Resource, Recovery and Recycling Agency with the input of Industry and successfully passed through the European Approval cycle at the end of 2019. It is envisaged that these regulations will be published and a license agreement is signed with Government during 2020.

Directors' report - continued

The Zero Waste Future program was launched in 2019 with the goal of creating a framework for Zero Waste Cities and Zero Waste Campuses in Malta and to address the serious issue of land and marine litter. This project forms part of the global Coca-Cola project – World Without Waste. The programme, led by Cypriot NGO ATKI Project & Research Centre and funded by The Coca-Cola Foundation with a grant of $150,000, conducted a waste characterisation study, the instalment of 15 on-the-go recycling bins in Birgu and 5 at MCAST Campus Paola, educational campaigns in schools, 7 beach clean ups and the setting up of a mobile zero-waste stall that engaged citizens through an information campaign about the importance of responsible waste disposal and recycling.

GSD has continued working in line with the Maltese Soft Drink Producer pledge to reduce added sugars by 10% by 2020 in the beverages we provide. To reach its ambitious target the Company has reformulated existing products including the use of low calorie sweeteners; introduced new products with no or reduced sugar and low-calorie sweeteners; increased the availability of smaller pack sizes to allow portion control and moderation; invested in the promotion of drinks with reduced or no sugar to educate and actively encourage consumer choice towards low and no calorie products. To be noted that GSD, through Kristal Water, continued to collaborate with the Health Promotion Department on a Water Outreach Campaign, which encouraged people to drink more water by informing them about the benefits and the body's need to be constantly hydrated.

In 2019, the Alter Aqua program celebrated eight years of achievements and saw the launch of phase 3 of the program covering years 2019 to 2020. This program has made a significant impact throughout 2011-2019 in the Maltese Islands, in promoting the use of non-conventional water resources. The program was initiated by the regional organisation Global Water Partnership - Mediterranean (GWP-Med) and was implemented in partnership with the Ministry for Energy and Water Management, the Sustainable Energy & Water Conservation Unit, the Ministry for Gozo, the Eco-Gozo Project and The Coca-Cola Foundation with the support of our Company.

Our Company also has a long-standing commitment to support the various activities such as Rockestra, the President's Fun Run and the August Moon ball held by the Malta Community Chest Fund Foundation under the patronage of the President of Malta.

Outlook for 2020

With effect from March 2020 onwards, the outbreak of COVID-19 impacted negatively a number of operations of companies within the Mizzi Organisation. Whilst some sectors and certain companies were hit worse than others, Group management invested substantial efforts to safeguard as many jobs as possible and ensure survival of all the respective companies within the Organisation. Being heavily reliant on the tourism industry, the beverage sector was heavily impacted as the hospitality industry was brought to a standstill.

All companies forming part of the Organisation embarked on a cost-cutting exercise in areas such as payroll costs, direct departmental costs together with selling and administrative expenses. Particular emphasis has also been placed on the credit control function so as to ensure cash receipts from customers and debtors are flowing in regularly and in a sustained manner in order to meet cash outflows. Revised favourable credit term arrangements were negotiated with a number of suppliers, though substantially no concessions were granted to the Organisation by its property lessors.

On a group wide basis, the Mizzi Organisation took a number of initiatives to ensure effective management of available liquidity to fund the requirements of all operations impacted by COVID-19. The Organisation managed to secure favourable arrangements with banks in relation to the postponement of bank loan repayments and with suppliers in relation to the postponement of major capital expenditure payments. A number of Organisation companies have taken advantage of available Government aid, such as the deferral of VAT and tax payments, wage supplement schemes and quarantine leave supplements. The Organisation also encouraged utilisation of vacation leave to decrease accruals in this regard.

Directors' report - continued

In view of the current situation brought about by the COVID-19 pandemic, the Organisation has prepared detailed financial and cash flow projections covering all its business lines for the financial years ended 31 December 2020 and 2021, based on historical financial information registered to date during 2020 and forecasts, factoring in the disorder created by the COVID-19 pandemic. These projections have been compiled as part of the preparation of a revised business plan. The projections are based on pessimistic assumptions for the base case scenario, reflecting the anticipated dismal performance during 2020 of specific Organisation business lines referred to above, with a gradual recovery in performance for the automotive, hotel, retail and catering businesses throughout 2021. The projected 2021 financial results for the core businesses within the Organisation are assumed to be significantly lower when compared to 2019 financial results. The projections also contemplate a stressed case scenario with sever business conditions throughout 2021. The cash flow projections take into account the financial support secured by the Organisation under the COVID-19 guarantee scheme managed by the Malta Development Bank. The sanction letter in the name of the company for additional facilities of €3.5 million, together with sanction letters in the name of Mizzi Organisation Limited for the secured additional facilities amounting to a further €12 million, have been approved and issued by the respective banks. These funds will assist the company and the Organisation in honouring committed capital expenditure and commitments with trade creditors.

The forecast for 2020 contemplates the projected existence of a significant liquidity buffer at the end of the year notwithstanding the expected adverse financial results, whilst positive cash flow generation is anticipated for 2021. The directors are further encouraged that as at the date of approval of these financial statements, all the business units of the Group are back in business and fully operational within the restrictions and guidelines issued by the Health Authorities. Furthermore, as business started to pick up gradually during the recent months, it was noted that actual performance across all business segments has been better than that forecasted within the 2020 projection.

Assuming stressed conditions are experienced throughout 2021, such that the projected financial results from the automotive business, the hotel, the retail and catering businesses are subdued in line with 2020 performance, whilst simultaneously projected property sales do not materialise, the Organisation would still be in a position to fund its group wide operations taking cognisance of liquidity available.

The Boards of Directors of Mizzi Organisation Limited and of the companies constituting the Mizzi Organisation feel confident that with the measures taken, the secured financing arrangements and the diversity of the Organisation's business lines, the companies within the Organisation shall overcome the disruptions brought about by this pandemic. The directors consider the Organisation and all Organisation companies to be a going concern. Hence the going concern assumption in the preparation of these financial statements is considered appropriate and there are no material uncertainties which may cast significant doubt about the ability of the Organisation and its companies to continue operating as a going concern.

The Mizzi Organisation also took a number of initiatives within the overall Organisation's structure to ensure retention of cash. Postponement of bank loan repayments, postponement of major capital expenditure and additional financing were all instrumental to ensure the Organisational's financial peace of mind. The Directors of the companies constituting the Mizzi Organisation feel confident that with the measures taken and the diversity of the Organisation, the Company and the Organisation shall surpass the disruptions brought about by this pandemic.

Following the assessment and analysis of the various scenarios, the Board of Directors are confident that, at the time of approving the financial statements, the going concern basis adopted for the preparation of the financial statements for the year ending 31 December 2019 is entirely appropriate.

Directors' report - continued

Financial risk management

In 2019 there has been no change in the company's financial risk management objectives and policies, details of which, together with further information on the company's risk exposures can be found in Note 3 to the financial statements.

Results and dividends

The financial results are set out on page 12. The directors have proposed and paid a final net dividend of €1,800,000 (2018: €1,800,000).

The directors propose that the balance of retained earnings amounting to €30,809,666 (2018: €29,364,816) be carried forward to the next financial year.

Directors

The directors of the company who held office during the year were:

Brian R. Mizzi
Maurice F. Mizzi
Kenneth C. Mizzi

The company's Articles of Association do not require any directors to retire.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements, which give a true and fair view of the state of affairs of the company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, (Cap. 386). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

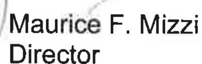
The financial statements of The General Soft Drinks Company Limited for the year ended 31 December 2019 are included in the Annual Report and Financial Statements 2019, which is published in hard-copy printed form and made available on the Mizzi Organisation website (www.mizziorganisation.com). The directors of the entities constituting the Mizzi Organisation are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Organisation's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

Brian R. Mizzi
Director



Maurice F. Mizzi
Director

Registered office:
The General Soft Drinks Company Limited
Marsa Industrial Estate
Marsa
Malta

28 October 2020

Independent auditor's report

To the Shareholders of The General Soft Drinks Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The General Soft Drinks Company Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2019, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

The General Soft Drinks Company Limited's financial statements, set out on pages 10 to 51, comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor's report - *continued*

To the Shareholders of The General Soft Drinks Company Limited

Other information

The directors are responsible for the other information. The other information comprises the *Directors' report* (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report - *continued*

To the Shareholders of The General Soft Drinks Company Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers, suppliers and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors 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.

Independent auditor's report - *continued*

To the Shareholders of The General Soft Drinks Company Limited

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Fabio Axisa
Partner

28 October 2020

Statement of financial position

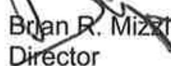
	Notes	As at 31 December 2019 €	2018 €
ASSETS			
Non-current assets			
Property, plant and equipment	5	**18,619,701**	17,728,032
Right-of-use assets	6	**2,232,140**	-
Trade and other receivables	8	**5,049,127**	5,073,090
Total non-current assets		**25,900,968**	22,801,122
Current assets			
Inventories	9	**4,252,819**	3,725,281
Trade and other receivables	8	**21,966,870**	21,120,199
Cash and cash equivalents	10	**2,247**	4,976
Total current assets		**26,221,936**	24,850,456
Total assets		**52,122,904**	47,651,578

Statement of financial position - continued

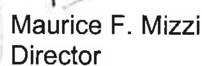
	Notes	As at 31 December 2019 €	2018 €
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	**116,469**	116,469
Retained earnings		**30,809,666**	29,364,816
Total equity		**30,926,135**	29,481,285
Non-current liabilities			
Lease liabilities	13	**2,095,719**	-
Trade and other payables	14	**8,034**	8,926
Borrowings	15	**6,441,999**	5,886,423
Total non-current liabilities		**8,545,752**	5,895,349
Current liabilities			
Lease liabilities	13	**130,257**	-
Trade and other payables	14	**8,690,959**	8,718,094
Borrowings	15	**3,829,801**	3,556,850
Total current liabilities		**12,651,017**	12,274,944
Total liabilities		**21,196,769**	18,170,293
Total equity and liabilities		**52,122,904**	47,651,578

The notes on pages 15 to 51 are an integral part of these financial statements.

The financial statements on pages 10 to 51 were authorised for issue by the Board on 28 October 2020 and were signed on its behalf by:



Brian R. Mizzi
Director



Maurice F. Mizzi
Director

Statement of comprehensive income

	Notes	Year ended 31 December 2019 €	2018 €
Revenue	16	**32,600,157**	33,099,659
Cost of sales	17	**(18,178,331)**	(19,055,833)
Gross profit		**14,421,826**	14,043,826
Distribution and selling costs	17	**(7,720,367)**	(7,439,215)
Administrative expenses	17	**(3,131,140)**	(3,293,583)
Other operating income	19	**42,866**	40,734
Operating profit		**3,613,185**	3,351,762
Finance costs	20	**(368,335)**	(250,759)
Profit for the year - total comprehensive income		**3,244,850**	3,101,003

The notes on pages 15 to 51 are an integral part of these financial statements.

Statement of changes in equity

	Note	Share capital €	Retained earnings €	Total €
Balance at 1 January 2018		116,469	28,063,813	28,180,282
Comprehensive income				
Profit for the year				
- total comprehensive income		-	3,101,003	3,101,003
Transactions with owners				
Dividends relating to 2018	23	-	(1,800,000)	(1,800,000)
Balance at 31 December 2018		116,469	29,364,816	29,481,285
Comprehensive income				
Profit for the year				
- total comprehensive income		-	3,244,850	3,244,850
Transactions with owners				
Dividends relating to 2019	23	-	(1,800,000)	(1,800,000)
Balance at 31 December 2019		**116,469**	**30,809,666**	**30,926,135**

The notes on pages 15 to 51 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2019 €	2018 €
Cash flows from operating activities			
Cash generated from operations	24	**3,887,868**	2,028,601
Interest paid	20	**(297,612)**	(250,759)
Net cash generated from operating activities		**3,590,256**	1,777,842
Cash flows from investing activities			
Purchase of property, plant and equipment	5	**(2,358,842)**	(2,448,198)
Proceeds from disposal of property, plant and equipment		**68,989**	6,950
Net cash used in investing activities		**(2,289,853)**	(2,441,248)
Cash flows from financing activities			
Proceeds from borrowings from related parties forming part of Mizzi Organisation	15	**2,200,000**	3,400,000
Repayments of borrowings from related party forming part of Mizzi Organisation	15	**(1,321,771)**	(597,028)
Dividends paid	23	**(1,800,000)**	(1,800,000)
Principal elements of lease payments	13	**(331,659)**	-
Net cash (used in)/generated from financing activities		**(1,253,430)**	1,002,972
Net movement in cash and cash equivalents		**46,973**	339,566
Cash and cash equivalents at beginning of year		**(2,481,823)**	(2,821,389)
Cash and cash equivalents at end of year	10	**(2,434,850)**	(2,481,823)

The notes on pages 15 to 51 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements include the financial statements of The General Soft Drinks Company Limited. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgement in the process of applying the company's accounting policies (see Note 4 - Critical accounting estimates and judgements).

Standards, interpretations and amendments to published standards effective in 2019

In 2019, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU resulted in changes to the company's accounting policies impacting the company's financial performance and position. The company had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16, 'Leases', but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The new accounting policies are disclosed in Note 1.18 below. The impact of the adoption of this standard is disclosed in Note 2. The other standards did not have any impact on the company's accounting policies.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the company's accounting periods beginning after 1 January 2019. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

1. Summary of significant accounting policies - continued

1.2 Foreign currencies

(a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the company's functional currency and the presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.3 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Buildings are subsequently shown at fair value, based on periodic valuations by professional valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All property, plant and equipment is subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Buildings and integral assets	1⅔ - 10
Plant and machinery	10 - 25
Office furniture and equipment	10 - 33⅓
Motor vehicles	10 - 25

Assets in the course of construction and payments on account are not depreciated. Buildings and integral assets are depreciated over the term of the lease arrangement or over the estimated useful life of the assets if shorter than the lease term. The estimated useful life of the integral assets ranges from ten to twenty years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

1. **Summary of significant accounting policies** - continued

1.3 Property, plant and equipment - continued

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Property, plant and equipment that suffered an impairment is reviewed for possible reversal of the impairment at the end of each reporting period.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

1.4 Intangible assets - Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired associate at the date of acquisition. Goodwill on acquisitions of associates is included in 'Investments in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1.5 Financial assets

Classification
The company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The company reclassifies debt investments when and only when its business model for managing those assets changes.

1. **Summary of significant accounting policies** - continued

1.5 Financial assets - continued

Recognition and derecognition
The company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on settlement date, the date on which an asset is delivered to or by the company. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership or has not retained control of the asset.

Measurement
At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

(a) Debt instruments
Subsequent measurement of debt instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the company may classify its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment losses are presented in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

(b) Equity instruments
The company subsequently measures all equity investments at fair value. Where the company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment
The company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables (see Note 3 for further details).

1.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of raw materials comprises the invoiced value of materials, and, in general, includes transport and handling costs. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. In respect of container stocks, net realisable value is estimated by writing down the cost of these stocks to estimated residual values over their estimated useful life.

1.7 Trade and other receivables

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss allowances.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

1.8 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

1. Summary of significant accounting policies - continued

1.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.10 Financial liabilities

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The company's financial liabilities, other than derivative financial instruments are classified as financial liabilities measured at amortised cost, i.e. not at fair value through profit or loss under IFRS 9. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.11 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.12 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1. **Summary of significant accounting policies** - continued

1.14 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

The principal temporary differences arise from the depreciation on property, plant and equipment and provisions for impairment of trade and other receivables.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.15 Revenue recognition

Revenues include all revenues from the ordinary business activities of the company. Ordinary activities do not only refer to the core business but also to other recurring sales of goods or rendering of services. Revenues are recorded net of value added tax. The company's business includes various activities as disclosed in Note 16 'Revenue'.

(a) Sale of goods and services

Revenues are recognised in accordance with the provision of goods or services, provided that collectability of the consideration is probable.

IFRS 15 requires that at contract inception the goods or services promised in a contract with a customer are assessed and each promise to transfer to the customer the good or service is identified as a performance obligation. Promises in a contract can be explicit or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

A contract asset must be recognised if an entity forming part of the company recorded revenue for fulfillment of a contractual performance obligation before the customer paid consideration or before - irrespective of when payment is due - the requirements for billing and thus the recognition of a receivable exist.

A contract liability must be recognised when the customer paid consideration or a receivable from the customer is due before the company fulfilled a contractual performance obligation and thus recognised revenue.

1. **Summary of significant accounting policies** - continued

1.15 Revenue recognition - continued

Multiple-element arrangements involving the delivery or provision of multiple products or services must be separated into distinct performance obligations, each with its own separate revenue contribution that is recognised as revenue on fulfillment of the obligation to the customer. The total transaction price of a bundled contract is allocated among the individual performance obligations based on their relative - possibly estimated - standalone selling prices, i.e., based on a ratio of the standalone selling price of each separate element to the aggregated standalone selling prices of the contractual performance obligations.

Sales of beverages - wholesale

The company manufactures and sells a range of beverage products in the wholesale market (including imported finished goods). Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the company has objective evidence that all criteria for acceptance have been satisfied.

The beverage goods are also sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (within trade and other payables) would be recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contracts - where revenue is recognised over time

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are recognised when incurred.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The company uses the 'percentage of completion method' to determine the appropriate amount of revenue and costs to recognise in a given period. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed up to the end of the reporting period in relation to the estimated total costs for the contract. Costs incurred during the year that relate to future activity on a contract are excluded from contract costs in determining the stage of completion and are shown as contract work in progress within inventories.

1. **Summary of significant accounting policies** - continued

1.15 Revenue recognition - continued

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the end of the reporting period. The company presents as a contract asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings, within trade and other receivables. The company presents as a contract liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses), within trade and other payables.

IFRS 15 provides more detailed guidance on how to account for contract modifications. Changes must be accounted for either as a retrospective change (creating either a catch up or deferral of previously recorded revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation.

Financing

The company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the company does not adjust any of the transaction prices for the time value of money.

(b) Interest income

Interest income is recognised in profit or loss for all interest-bearing instruments as it accrues using the effective interest method.

(c) Dividend income is recognised when the right to receive payment is established.

(d) Other operating income is recognised on an accrual basis unless collectibility is in doubt.

1.16 Customer contract assets and liabilities

The timing of revenue recognition may differ from customer invoicing. Trade receivables presented in the statement of financial position represent an unconditional right to receive consideration (primarily cash), i.e. the services and goods promised to the customer have been transferred.

By contrast, contract assets mainly refer to amounts allocated per IFRS 15 as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other services or goods under that same contract. Contract assets, like trade receivables, are subject to impairment for credit risk. The recoverability of contract assets is also verified, especially to cover the risk of impairment should the contract be interrupted.

Contract liabilities represent amounts paid by customers before receiving the goods and/or services promised in the contract. This is typically the case for advances received from customers or amounts invoiced and paid for goods or services not transferred yet (previously recognised in deferred income).

1. Summary of significant accounting policies - continued

1.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. Government grants related to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants related to assets, i.e. in respect of the purchase of property, plant and equipment, are included in liabilities as deferred government grants, and are credited to profit or loss on a straight-line basis over the expected lives of the related assets, presented under 'Other operating income'.

Grants related to income are presented as a deduction in reporting the related expense. Accordingly, government grants received in relation to interest rate subsidy schemes are recognised in profit or loss as a deduction in reporting 'Finance costs' when the related interest expense is accrued in profit or loss.

1.18 Leases

The company is the lessee

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As explained in Note 1.1 above, the company has changed its accounting policy for leases where the company is the lessee. The impact of the change is described in Note 2.

Until 31 December 2018, leases of assets in which a significant portion of the risks and rewards of ownership were effectively retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

With effect from 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the company under residual value guarantees;
- the exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

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

1. **Summary of significant accounting policies** - continued

1.18 Leases - continued

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the company, where there is no third party financing; and
- makes adjustments specific to the lease, eg term, country, currency and security.

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

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

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

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

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

1.19 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of interest-bearing borrowings.

1. Summary of significant accounting policies - continued

1.20 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

2. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the company's financial statements.

As indicated in Note 1.1 above, the company has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 1.18.

(a) The company's leasing activities

The company leases various properties and motor vehicles. Rental contracts are typically made for fixed periods of 1 to 65 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in the majority of the company's motor vehicles leases. These terms are used to maximise operational flexibility in respect of managing contracts. The majority of extension and termination options held are exercisable only by the company and not by the respective lessor. In respect of the majority of lease arrangements, the extension periods have been included in determining lease term for the respective arrangement.

(b) Adjustments recognised upon adoption of IFRS 16 in the statement of financial position on 1 January 2019

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.15%.

The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets	- increase by €2,234,908
- prepayments	- decrease by €19,446
- lease liabilities	- increase by €2,215,462

2. Changes in accounting policies

(b) Adjustments recognised upon adoption of IFRS 16 in the statement of financial position on 1 January 2019 - continued

The recognised right-of-use assets relate to the following types of assets:

	As at 1 January 2019 €
Properties	2,213,716
Motor vehicles	21,192
Total right-of-use assets	**2,234,908**

Measurement of lease liabilities

	As at 1 January 2019 €'000
Operating lease commitments disclosed as at 31 December 2018	4,016,109
Add: adjustments as a result of different treatment of extensions	216,473
Discounted using the incremental borrowing rate at the date of initial application	(2,017,120)
Lease liabilities recognised as at 1 January 2019	**2,215,462**
Of which are:	
Current lease liabilities	79,013
Non-current lease liabilities	2,136,449
	2,215,462

Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. Changes in accounting policies - continued

(c) Amounts recognised in profit and loss

The income statement reflects the following amounts relating to leases:

	2019
	€
Depreciation charge of right-of-use assets	
Properties	266,145
Motor vehicles	8,073
	274,218
Interest expense (included in finance costs)	**70,724**

Operating lease charges to be reflected within profit and loss, utilising the accounting principles of IAS 17 Leases had IFRS 16 not been adopted, during the period from 1 January 2019 to 31 December 2019 would have amounted to €313,637. Hence, EBITDA for the year ended 31 December 2019 has been impacted favourably by this amount in view of the adoption of the requirements of IFRS 16.

3. Financial risk management

3.1 Financial risk factors

The company's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company's board of directors provides principles for overall company risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The company did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial year.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, which are denominated in a currency that is not the respective entity's functional currency. The company is exposed to foreign exchange risk arising from the company's purchases denominated in US dollar and sterling, which purchases are not considered material. The company's risk exposures reflecting the carrying amount of payables denominated in foreign currencies at the end of the reporting period were not significant.

3. **Financial risk management** - continued

3.1 **Financial risk factors** - continued

The company's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro except as outlined above. As outlined previously, management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions denominated in US dollar and sterling to be significant since the volume of such purchases and outstanding balances at end of the reporting period are not significant in relative terms. Balances are settled within very short periods in accordance with the negotiated credit terms. Also, foreign exchange risk attributable to future transactions is not deemed to be material since the company manages the risk by reflecting, as far as is practicable, the impact of exchange rate movements registered with respect to purchases in the respective sales prices.

Accordingly, the company is not significantly exposed to foreign exchange risk and a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

(ii) Cash flow and fair value interest rate risk

The company has no significant interest-bearing assets. The company's interest rate risk principally arises from bank borrowings issued at variable rates (Note 15) and the loan from related party forming part of Mizzi Organisation subject to floating interest rates (Note 15) which expose the company to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on borrowing costs in respect of these liabilities. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained. The company's operating cash flows are substantially independent of changes in market interest rates.

(iii) Price risk

The company is exposed to commodity price risk in relation to purchases of certain raw materials. The company enters into contractual arrangements for the procurement of these raw materials at variable market prices but at the end of the reporting period there were no outstanding contractual commitments in this respect. Management does not consider the potential impact of a defined shift in commodity prices on profit or loss to be significant, particularly in view of the weighting of purchases of such raw materials in relation to the company's total purchases.

3. **Financial risk management** - continued

3.1 **Financial risk factors** - continued

(b) Credit risk

Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding debtors and committed transactions. The company's exposures to credit risk at the end of the reporting period are analysed as follows:

	2019	2018
	€	€
Financial assets measured at amortised cost:		
Trade and other receivables (Note 8)	**26,202,041**	25,342,813
Cash and cash equivalents (Note 10)	**2,247**	4,976
	26,204,288	25,347,789

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The company does not hold significant collateral as security in this respect. The figures disclosed above in respect of trade and other receivables exclude prepayments.

Cash and cash equivalents

The company principally banks with local financial institutions with high-quality standing or rating. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss is insignificant.

Trade and other receivables (including contract assets)

The company assesses the credit quality of its trade customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products are effected to customers with an appropriate credit history. The company monitors the performance of its trade and other receivables on a regular basis to identify incurred collection losses, which are inherent in the company's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the company's activities and the market in which it operates, a limited number of customers account for a certain percentage of the company's trade and other receivables. Whilst no individual customer or company of dependent customers is considered by management as a significant concentration of credit risk with respect to contractual debts, these exposures are monitored and reported more frequently and rigorously. Generally, these customers trade frequently with the company and are deemed by management to have positive credit standing, usually taking cognisance of the performance history without defaults.

The company manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The company's trade and other receivables, which are not credit impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

3. Financial risk management - continued

3.1 Financial risk factors - continued

The company's entire sales of products are invoiced to a related party forming part of Mizzi Organisation, with the objective that the related party acts as the sole customer facing entity for the Organisation's beverage activities. In this respect both the company and the related party make provisions for credit impaired receivables as further explained below.

Impairment of trade receivables (including contract assets)

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of time before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation and adjusts the historical loss rates based on expected changes in these factors. Credit loss allowances include specific provisions against credit impaired individual exposures with the amount of the provisions being equivalent to the balances attributable to credit impaired receivables.

On that basis, the loss allowance for trade receivables as at 31 December 2019 and 1 January 2019 was determined as follows:

31 December 2019	Up to 60 days past due	61 to 120 days past due	121 to 272 days past due	273 to 365 days past due	+365 days past due	Total
Expected loss rate	0.5% - 1.3%	1.9% - 2.6%	4.3%	8.4%	100%	
Gross carrying amount (€)	9,234,909	1,392,563	943,449	251,460	1,510,703	13,333,112
Loss allowance (€)	**54,932**	**37,282**	**47,432**	**21,066**	**1,560,843**	**1,721,555**

1 January 2019	Up to 60 days past due	61 to 120 days past due	121 to 272 days past due	273 to 365 days past due	+365 days past due	Total
Expected loss rate	0.5% - 1.3%	1.9% - 2.6%	4.3%	8.4%	100%	
Gross carrying amount (€)	9,042,133	1,795,841	771,160	115,706	1,387,858	13,112,698
Loss allowance (€)	**84,741**	**17,941**	**7,722**	**57,872**	**1,387,685**	**1,555,961**

3. Financial risk management - continued

3.1 Financial risk factors - continued

The company established an allowance for impairment that represented its estimate of expected credit losses in respect of trade receivables. The individually credit impaired trade receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Hence, provisions for impairment in respect of credit impaired balances with corporate trade customers relate to entities which are in adverse trading and operational circumstances. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The company does not hold any significant collateral as security in respect of the credit impaired assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than a year past due.

Credit losses on trade receivables and contract assets are presented as net expected credit losses and other impairment charges within operating profit. Subsequent recoveries of amounts written off are credited against the same line item.

Categorisation of receivables as past due is determined by the company on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers. At 31 December 2019 and 2018, the company's past due but not impaired receivables and the carrying amount of trade receivables that would otherwise be past due or credit impaired whose terms have been renegotiated, were not deemed material in the context of the company's trade receivables figures.

Impairment of other receivables

The arrangement between the company and related party referred to previously also includes receivables from customers in relation to contractual managements. In this respect, management assesses on a forward-looking basis the expected credit losses ('ECL') on the basis of the 'three-stage' model for impairment outlined by IFRS 9, based on changes in credit quality since initial recognition as summarised below:

- Other receivables that are not credit impaired on initial recognition are classified in 'Stage 1' and their credit risk is continuously monitored by the company. Their ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the receivables are moved to 'Stage 2' but are not yet deemed to be credit impaired.
- If the receivables are credit impaired, they are then moved to 'Stage 3'.
- Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs and assumptions used in measuring the ECL are outlined below.

The assessment of SICR incorporates forward-looking information and is reviewed on a periodic basis. As required by IFRS 9, management presumptively considers that a SICR generally occurs when an asset is more than 30 days past due. The entities determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. The probability of default (PD) is also derived from internally compiled statistics and other historical data, adjusted to reflect forward-looking information.

3. Financial risk management - continued

3.1 Financial risk factors - continued

The assessment to determine the extent of increase in credit risk attributable to other receivables since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the receivable. As a result, the definition of default is important and considers qualitative (such as non-adherence to terms and conditions of agreement) and quantitative (such as overdue status) factors where appropriate.

Management determines that a receivable is in default (or credit impaired and accordingly stage 3 for IFRS 9 purposes) by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 60 days for any material credit obligations and there are other indicators that the debtor is unlikely to pay.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and Loss Given Default (LGD) throughout the company's expected loss calculations. The LGD represents an entity's expectation of the extent of loss on a defaulted exposure.

Explanation of inputs

The ECL is measured on either a 12-month or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the product of the PD, EAD and LGD.

The PD represents the likelihood of a customer defaulting on its financial obligation either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. Accordingly, the 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the receivable, respectively.

EAD represents the expected exposure in the event of a default. The EAD of a financial asset is the gross carrying amount at default. The 12-month and lifetime EADs are determined based on the expected payment profiles.

LGD represents management's expectation of the extent of loss on a defaulted exposure. Hence, the LGD represents expected credit losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of any collateral value at the time it is expected to be realised and the time value of money.

The loss allowance for other receivables from customers in relation to contractual arrangements as at 31 December 2019 and 2018 was determined as follows:

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Probability of default (PD)	6.3%	12.6%	100%	
Loss given default (LGD)	100%	100%	100%	
Gross carrying amount (EAD) - €	4,692,215	1,943,715	1,428,437	8,064,367
Loss allowance (€)	**295,610**	**244,908**	**1,428,437**	**1,968,955**

3. **Financial risk management** - continued

3.1 **Financial risk factors** - continued

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Probability of default (PD)	6.6%	13.3%	100%	
Loss given default (LGD)	100%	100%	100%	
Gross carrying amount (EAD) - €	3,637,433	3,702,446	1,378,827	8,718,706
Loss allowance (€)	**242,706**	**494,087**	**1,378,827**	**2,115,620**

The loss allowance for other receivables from customers in relation to contractual arrangements is recorded in the books of the company.

Credit loss allowances include specific provisions against credit impaired individual exposures with the amount of the provisions being equivalent to the balances attributable to credit impaired receivables.

The company established an allowance for impairment that represented its estimate of expected credit losses in respect of other receivables. The individually credit impaired receivables mainly relate to a number of independent debtors which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The company does not hold any significant collateral as security in respect of the credit impaired assets.

Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than a year past due. Credit losses are presented as net expected credit losses and other impairment charges within operating profit. Subsequent recoveries of amounts written off are credited against the same line item.

Amounts owed by related parties

As noted earlier, the company's entire sales of products are invoiced to a related party forming part of Mizzi Organisation, with the objective that the related party acts as the sole customer facing entity for the Organisation's beverage activities from that date. Accordingly, the company's debtors include significant amounts due from this related party (see Note 8). The Organisation's treasury monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The company assesses the credit quality of related parties taking into account financial position, performance and other factors. The company takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default. Other than the sales arrangement with the related party referred to previously, all other balances owed by related parties are repayable on demand. Accordingly, expected credit losses are based on the assumption that repayment of the balance is demanded at the reporting date. Accordingly, the expected credit loss allowance attributable to such balances is insignificant.

(c) Liquidity risk

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise lease liabilities (Note 13), borrowings (Note 15) and trade and other payables (Note 14). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the company's obligations.

3. Financial risk management - continued

3.1 Financial risk factors - continued

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. This is also performed at a central treasury function which controls the overall liquidity requirements of the Mizzi Organisation within certain parameters. The company's liquidity risk is actively managed taking cognisance of the matching of cash inflows and outflows arising from expected maturities of financial instruments, together with the company's committed bank borrowing facilities and other intra-Organisation financing that it can access to meet liquidity needs. In this respect management does not consider liquidity risk to the company as significant taking into account the liquidity management process referred to above.

The company's trade and other payables are predominantly repayable within one year from the end of the reporting period. The table below analyses the company's bank borrowings into relevant maturity groupings based on the remaining term at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	€	€	€	€	€
At 31 December 2019					
Lease liabilities	**196,911**	**183,534**	**258,640**	**3,539,172**	**4,178,257**
Loan from related party forming part of Mizzi Organisation	**1,630,483**	**1,630,483**	**4,482,388**	**920,450**	**8,663,804**
At 31 December 2018					
Loan from related party forming part of Mizzi Organisation	1,271,293	1,271,293	3,813,878	1,390,381	7,746,845

3.2 Capital risk management

The company's capital is managed at the level of Mizzi Organisation by reference to the aggregate level of equity and borrowings or debt as disclosed in the respective consolidated financial statements of Consolidated Holdings Limited and Mizzi Organisation Limited, together with the financial statements of the The General Soft Drinks Company Limited and GSD Marketing Limited. The capital of the entities forming part of the Mizzi Organisation, which have been mentioned above, is managed on an aggregate basis by the Organisation as if they were organised as one entity. The Organisation's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may issue new shares or adjust the amount of dividends paid to shareholders.

3. Financial risk management - continued

3.2 Capital risk management

The Organisation also monitors the level of capital on the basis of the ratio of aggregated net debt to total capital. Net debt is calculated as total borrowings (as shown in the respective consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the respective statement of financial position, plus net debt. The aggregated figures in respect of the Organisation's equity and borrowings are reflected below:

	2019	2018
	€	€
Total borrowings	**96,867,144**	101,977,405
Less: Cash and cash equivalents	**(12,482,058)**	(5,553,846)
Net debt	**84,385,086**	96,423,559
Total equity	**162,555,885**	147,876,117
Total capital	**246,940,971**	244,299,676
Net debt/total capital	**34%**	39%

The Organisation manages the relationship between equity injections and borrowings, being the constituent elements of capital as reflected above, with a view to managing the cost of capital. The level of capital of The General Soft Drinks Company Limited, as reflected in the statement of financial position, is maintained by reference to its respective financial obligations and commitments arising from operational requirements. In view of the nature of the company's activities and the extent of borrowings or debt, the capital level at the end of the reporting period determined by reference to the financial statements is deemed adequate by the directors.

3.3 Fair values of financial instruments

At 31 December 2019 and 2018 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

The fair value of non-current financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments. The fair value of the company's non-current floating interest rate loan from related party forming part of Mizzi Organisation at the end of the reporting period is not significantly different from the carrying amount. The carrying amounts of the other financial liabilities as at 31 December 2019, comprising lease liabilities, are reasonable estimates of their fair value as there have not been significant changes in the company's internal borrowing rate since the date of transition to IFRS 16. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as level 2 within the fair value measurement hierarchy required by IFRS 7, *'Financial Instruments: Disclosure'*.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

5. Property, plant and equipment

	Buildings and integral assets €	Plant and machinery €	Office furniture and equipment €	Motor vehicles €	Assets in course of construction and payments on account €	Total €
At 1 January 2018						
Cost	18,815,691	22,521,911	5,173,592	3,290,296	51,874	49,853,364
Accumulated depreciation	(5,887,158)	(20,012,259)	(3,825,844)	(2,528,421)	-	(32,253,682)
Net book amount	12,928,533	2,509,652	1,347,748	761,875	51,874	17,599,682
Year ended 31 December 2018						
Opening net book amount	12,928,533	2,509,652	1,347,748	761,875	51,874	17,599,682
Additions	98,218	1,097,946	481,344	487,434	-	2,164,942
Reclassifications	-	-	51,874	-	(51,874)	-
Disposals	-	(14,333)	-	(51,595)	-	(65,928)
Depreciation charge	(620,159)	(610,837)	(627,676)	(177,920)	-	(2,036,592)
Depreciation released on disposals	-	14,333	-	51,595	-	65,928
Closing net book amount	12,406,592	2,996,761	1,253,290	1,071,389	-	17,728,032
At 31 December 2018						
Cost	18,913,909	23,605,524	5,706,810	3,726,135	-	51,952,378
Accumulated depreciation	(6,507,317)	(20,608,763)	(4,453,520)	(2,654,746)	-	(34,224,346)
Net book amount	12,406,592	2,996,761	1,253,290	1,071,389	-	17,728,032

5. Property, plant and equipment - continued

	Buildings and integral assets €	Plant and machinery €	Office furniture and equipment €	Motor vehicles €	Assets in course of construction and payments on account €	Total €
Year ended 31 December 2019						
Opening net book amount	12,406,592	2,996,761	1,253,290	1,071,389	-	17,728,032
Additions	303,222	649,937	498,443	134,892	1,495,979	3,082,473
Disposals	-	-	-	(158,652)	-	(158,652)
Depreciation charge	(633,782)	(635,559)	(680,231)	(179,669)	-	(2,129,241)
Depreciation released on disposals	-	-	-	97,089	-	97,089
Closing net book amount	**12,076,032**	**3,011,139**	**1,071,502**	**965,049**	**1,495,979**	**18,619,701**
At 31 December 2019						
Cost	19,217,131	24,255,461	6,205,253	3,702,375	1,495,979	54,876,199
Accumulated depreciation	(7,141,099)	(21,244,322)	(5,133,751)	(2,737,326)	-	(36,256,498)
Net book amount	**12,076,032**	**3,011,139**	**1,071,502**	**965,049**	**1,495,979**	**18,619,701**

6. Right-of-use assets

The statement of financial position reflects the following assets relating to leases:

	As at 31 December 2019 €	As at 1 January 2019 €
Properties	**2,219,021**	2,213,716
Motor vehicles	**13,119**	21,192
Total right-of-use assets	**2,232,140**	2,234,908

Additions to right-of-use assets during the course of the current financial year amounted to €271,450 relating to properties. The only other movement in the carrying amount of right-of-use assets during the year is attributable to depreciation charges amounting to €274,218.

7. Investments in associate

	2019	2018
	€	€
At 31 December		
Cost	**62,020**	62,020
Provisions for impairment	**(62,020)**	(62,020)
Net book amount	**-**	-

The associate at 31 December 2019 is shown below:

	Registered office	**Class of shares held**	**Percentage of shares held %**
Malta Deposit and Return System Limited (in dissolution)	Mizzi House National Road	Ordinary shares	35.5
	Blata l-Bajda Malta	Redeemable preference shares	35.5

The company's shareholding has remained unchanged from 2018.

By virtue of a resolution dated 17 December 2008, the shareholders of Malta Deposit and Return System Limited had approved the voluntary dissolution and consequential winding up of the company.

The company's share of results of the associate and its share of the assets and liabilities, together with disclosure requirements emanating from IFRS 12 *'Disclosure of interests in other entities'*, are not deemed material for disclosure purposes taking cognisance of the insignificance of the company's investment in relation to its financial position.

8. Trade and other receivables

	2019	2018
	€	€
Current		
Amounts owed by related parties forming part of Mizzi Organisation	**20,406,920**	19,363,377
Amounts owed by other related parties	**3,086**	3,213
Advance payment to suppliers	**324,247**	303,360
Other receivables	**418,661**	599,773
Prepayments	**813,956**	850,476
	21,966,870	21,120,199
Non-current		
Amounts owed by related parties forming part of Mizzi Organisation	**5,049,127**	5,073,090

8. Trade and other receivables - continued

Non-current amounts owed from related parties forming part of Mizzi Organisation, represent amounts which are ultimately due from third party customers (in relation to contractual arrangements entered into with these parties), in accordance with the arrangement in place between the company and the related party as referred to previously in Note 3.

Non-current amounts are receivable within five years from the end of the reporting period.

9. Inventories

	2019	2018
	€	€
Raw materials	**1,937,210**	1,310,407
Goods in transit	**810,762**	823,624
Finished goods	**1,055,890**	1,145,321
Containers (carried at net realisable value)	**346,410**	365,003
Spare parts and others	**102,547**	80,926
	4,252,819	3,725,281

The cost of inventories recognised as expense is appropriately disclosed in Note 17 to the financial statements. During the current financial year, inventory write-downs amounted to €208,028 (2018: €286,735). These amounts have been included in 'Cost of sales' in profit or loss.

10. Cash and cash equivalents

For the purposes of the statements of cash flows, the year-end cash and cash equivalents comprise the following:

	2019	2018
	€	€
Cash at bank and in hand	**2,247**	4,976
Bank overdrafts (Note 15)	**(2,437,097)**	(2,486,799)
	(2,434,850)	(2,481,823)

11. Share capital

	2019	2018
	€	€
Authorised, issued and fully paid		
50,000 ordinary shares of €2.329373 each	**116,469**	116,469

12. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2018: 35%).

At 31 December, the company had the following temporary differences:

	Unrecognised		Recognised	
	2019	2018	**2019**	2018
	€	€	**€**	€
Unutilised tax credits arising from investment tax credits	**12,529,169**	13,964,000	**280,835**	-
Taxable temporary differences in respect of depreciation of property, plant and equipment	**(280,835)**	(13,574)	**(280,835)**	-
Deductible temporary differences in respect of:				
Provisions in respect of contractual arrangements with customers	**2,850,587**	3,330,374	-	-
Credit loss allowances in respect of investments in associate	-	62,020	-	-

Under the Business Promotion Regulations 2001, the company is entitled to investment tax credits on "qualifying" capital expenditure, the full amount of which would be available for set-off against the company's tax liability.

The unrecognised net deferred tax assets at the end of the reporting periods have not been reflected in these financial statements due to the uncertainty of the realisation of the related tax benefits. Unutilised investment tax credits are forfeited upon cessation of the trade.

13. Lease liabilities

	As at 31 December 2019	As at 1 January 2019
	€	€
Non-current		
Properties	**2,090,467**	2,123,103
Motor vehicles	**5,252**	13,346
	2,095,719	2,136,449
Current		
Properties	**122,162**	71,167
Motor vehicles	**8,095**	7,846
	130,257	79,013
Total lease liabilities	**2,225,976**	2,215,462

13. Lease liabilities - continued

The movement in the carrying amount of these liabilities is analysed in the following table:

	€
As at 1 January 2019	**2,215,462**
Additions	**271,450**
Payments	**(331,659)**
Interest charge	**70,723**
	2,225,976

Included in the lease liabilities for properties are amounts of €13,346 (1 January 2019: €21,192) which are attributable arrangements with a related party, of which €5,251 (1 January 2019: €13,346) are non-current amounts.

The total cash outflows for leases in 2019 was €331,659. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December are analysed in Note 3(c).

14. Trade and other payables

	2019	2018
	€	€
Current		
Trade payables	**4,205,363**	4,079,814
Amounts payable in respect of capital expenditure	**1,495,481**	771,850
Amounts owed to related parties forming part of Mizzi Organisation	**310,097**	309,248
Amounts owed to other related parties	**-**	117,476
Other payables	**397,659**	410,192
Indirect taxation	**511,174**	752,955
Deferred Government grants related to assets	**892**	892
Accruals	**1,770,293**	2,275,667
	8,690,959	8,718,094
Non-current		
Deferred Government grants related to assets	**8,034**	8,926

Deferred Government grants included above represent state aid in respect of the energy grant scheme. This grant relates to assets and the amount of the liability is reflected in profit or loss on a straight-line basis over the expected lives of the related assets. The impact of these grants on the current year's results is presented within 'Other operating income' and disclosed in Note 19.

15. Borrowings

	2019	2018
	€	€
Current		
Bank overdrafts	**2,437,097**	2,486,799
Loan from related party forming part of Mizzi Organisation	**1,392,704**	1,070,051
	3,829,801	3,556,850
Non-current		
Loan from related party forming part of Mizzi Organisation	**6,441,999**	5,886,423
Total borrowings	**10,271,800**	9,443,273

The company's banking facilities as at 31 December 2019 amounted to €3,375,230 (2018: €3,675,230). These facilities are mainly secured by:

(a) a general hypothec over the company's assets for €3,610,500 (2018: €4,775,000);
(b) general hypothecary guarantees given by two related parties forming part of Mizzi Organisation for the amount of €1,164,700 (2018: €1,164,700) over assets, supported by special hypothecary guarantees for the amounts of €3,610,529 (2018: €6,522,000) and €1,747,000 (2018: €1,164,700) respectively over property held; and
(c) guarantees by related parties forming part of Mizzi Organisation for amounts ranging from €2,397,000 to €12,000,000.

The company's bank borrowings are entirely subject to variable rates of interest linked to euribor. The weighted average effective interest rates for bank borrowings at the end of the reporting period are as follows:

	2019	2018
	%	%
Bank overdrafts	**2.25**	2.25

15. **Borrowings** - continued

The company's loan from related party forming part of Mizzi Orgaisation, is subject to a floating rate of interest and the weighted average effective interest rate at the end of the reporting period was 3.15% (2018: 3.15%). The maturity of the non-current portion of this loan is disclosed below:

	2019	2018
	€	€
Between 1 and 2 years	**1,410,184**	1,092,925
Between 2 and 5 years	**4,135,031**	3,456,754
Over 5 years	**896,784**	1,336,744
	6,441,999	5,886,423

16. Revenue

All the company's revenue consists of revenue recognised at a point in time and is derived from activities in the local beverage sector. It primarily includes revenue from the activities relating to bottling of soft drinks, mineral water and other beverages. All the company's revenues are attributable to sales to a related party forming part of Mizzi Organisation, which acts as the sole point of focus for all customers of the Organisation's beverage activities. The company had no unfulfilled performance obligations as at 31 December 2019.

17. Expenses by nature

	2019	2018
	€	€
Raw materials and other consumables used	**12,581,694**	13,630,570
Changes in inventories of finished goods	**89,431**	(28,962)
Employee benefit expense (Note 18)	**7,295,243**	7,485,497
Depreciation of property, plant and equipment (Note 5)	**2,129,241**	2,036,592
Depreciation of right-of-use assets (Note 6)	**274,218**	-
Operating lease rentals payable and similar charges:		
- motor vehicles	**4,677**	19,965
- property	**29,776**	194,816
Business promotion and similar service charges	**2,280,340**	1,994,966
Other expenses	**4,345,218**	4,455,187
Total cost of sales; distribution and selling costs; and administrative expenses	**29,029,838**	29,788,631

17. Expenses by nature - continued

Operating profit is stated after (crediting)/charging the following:

	2019 €	2018 €
Government grants recognised (included in 'Other operating income')	**(892)**	(892)
Exchange differences	**(4,029)**	34,002

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2019 and 2018 relate to the following:

	2019 €	2018 €
Annual statutory audit	**36,000**	37,000
Tax advisory and compliance services	**680**	636
Other non-audit services	**3,400**	1,000
	40,080	38,636

18. Employee benefit expense

	2019 €	2018 €
Wages and salaries	**6,887,320**	7,076,224
Social security costs	**407,923**	409,273
	7,295,243	7,485,497

Average number of persons employed during the year:

	2019	2018
Direct	**149**	144
Administration	**93**	98
	242	242

19. Other operating income

Other operating income comprises income that is ancillary to the company's operating activities and also includes any gains on disposal of specific assets, including assets which were surplus to the company's requirements.

20. Finance costs

	2019	2018
	€	€
Interest payable loan from related party forming part of Mizzi Organisation	**245,639**	185,866
Bank interest and charges	**51,973**	64,893
Interest charges on lease liabilities	**70,723**	-
	368,335	250,759

21. Taxation

No provision for current taxation has been made in the financial statements principally in view of the utilisation of investment tax credits.

The tax on the profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2019	2018
	€	€
Profit before tax	**3,244,850**	3,101,003
Tax on profit at 35%	**1,135,698**	1,085,351
Tax effect of:		
Movement in temporary differences arising on property, plant and equipment, credit loss allowances in respect of trade and other receivables and other provisions	**14,655**	(8,102)
Tax incentives in respect of investment tax credits (refer to Note below)	**(1,159,461)**	(1,075,621)
Income not subject to tax	**(2,020)**	(1,840)
Expenses not deductible for tax purposes	**11,127**	212
	-	-

21. **Taxation** - continued

The company is eligible to qualify for tax incentives under the Business Promotion Regulations 2001. Accordingly, the company is entitled to investment tax credits on "qualifying" capital expenditure, the full amount of which would be available for set-off against the respective company's tax liability (also refer to Note 12).

22. Director's emoluments

	2019	2018
	€	€
Salaries and other emoluments	**101,154**	95,231

23. Dividends

	2019	2018
	€	€
Final dividends paid on ordinary shares:		
Gross and net dividends	**1,800,000**	1,800,000
Dividends per share	**36**	36

24. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2019	2018
	€	€
Operating profit	**3,613,185**	3,351,762
Adjustments for:		
Depreciation of property, plant and equipment (Note 5)	**2,129,241**	2,036,592
Depreciation of right-of-use assets (Note 6)	**274,218**	-
Profit on disposal of property, plant and equipment	**(7,426)**	(6,950)
Movement in provisions in respect of contractual arrangements with customers	**(66,160)**	(74,651)
Changes in working capital:		
Inventories	**(527,538)**	(374,670)
Trade and other receivables	**(775,994)**	(4,713,609)
Trade and other payables	**(751,658)**	1,810,127
Cash generated from operations	**3,887,868**	2,028,601

Net debt reconciliation

The principal movements in the company's net debt related to cash flow movements and are disclosed as part of the financing activities in the statement of cash flows.

25. Commitments

Capital commitments

Commitments for capital expenditure in relation to property development (Note 5) not provided for in these financial statements are as follows:

	2019
	€
Authorised but not contracted	**1,289,565**
Contracted but nor provided for	**2,474,913**
	3,764,478

Operating lease commitments - where the company is the lessee

The future minimum lease payments payable under non-cancellable property operating leases, reflecting the terms of the 65 year emphyteutical grant for land in Marsa that the company entered into in 2005, are as follows:

	2019	2018
	€	€
Not later than one year	-	77,785
Later than one year and not later than five years	-	311,139
Later than five years	-	3,627,185
	-	4,016,109

With effect from 1 January 2019, the company has recognised right-of-use assets for leases, in accordance with the requirements of IFRS 16 (Note 6).

26. Contingencies

(a) The company, together with other related parties forming part of Mizzi Organisation, is jointly and severally liable in respect of guarantees given to secure the banking facilities of related parties forming part of Mizzi Organisation up to a limit of €70,304,000 (2018: €70,304,000) respectively, together with interest and charges thereon. These guarantees are supported by general hypothecary guarantees on the company's assets for the amount of €29,257,000 (2018: €29,257,000).

(b) At 31 December 2018, the company had contingent liabilities amounting to €89,345 in respect of guarantees issued by the bank on its behalf in favour of third parties in the ordinary course of business.

27. Related party transactions

The General Soft Drinks Company Limited forms part of the Mizzi Organisation. The Mizzi Organisation is not a legal entity and does not constitute a group of companies within the meaning of the Maltese Companies Act (Cap. 386) of the laws of Malta. The Organisation is a conglomerate of companies principally comprising Consolidated Holdings Limited and Mizzi Organisation Limited, together with all their respective subsidiaries, The General Soft Drinks Company Limited and GSD Marketing Limited.

27. Related party transactions - continued

The entities constituting the Mizzi Organisation are ultimately fully owned by Daragon Limited, Demoncada Holdings Limited, Demoncada Limited, Investors Limited and Maurice Mizzi. Members of the Mizzi family in turn ultimately own and control the above mentioned companies.

Accordingly, the members of the Mizzi family, the shareholder companies mentioned above, all entities owned or controlled by the members of the Mizzi family and the shareholder companies, the associates of entities comprising the Organisation and the Organisation entities' key management personnel are the principal related parties of the entities forming part of the Mizzi Organisation.

Trading transactions with these related parties would typically include interest charges, management fees, service charges and other such items which are normally encountered in a group context.

Taking cognisance of the arrangement referred to in Note 16 to the financial statements, in the ordinary course of its operations, the company invoices all its revenue in respect of sales of goods and services to another company forming part of the Organisation. The Organisation's objective is to earmark the latter company as the sole customer facing entity for the beverage activities of the Organisation. The company also purchases goods and services from related parties for trading purchase.

In the opinion of the directors, disclosure of related party transactions, which are generally carried out on commercial terms and conditions, is only necessary when the transactions effected have a material impact on the operating results and financial position of the company. The aggregate invoiced amounts in respect of a considerable number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these financial statements.

Except for transactions disclosed or referred to previously, the following significant operating transactions, which were carried out principally with related parties forming part of Mizzi Organisation, have a material effect on the operating results and financial position of the company:

	2019	2018
	€	€
Sales of goods and services		
Sales of goods held for resale	**32,166,434**	32,968,454
Sale of items classified as property, plant and equipment		
Sale of plant and machinery	**-**	1,000
Purchases of goods and services		
Purchases of property, plant and equipment	**65,000**	510,729
Servicing, advertising and similar charges	**846,006**	917,168
Management fees payable and similar charges	**322,771**	296,482
	1,233,777	1,724,379

The transactions disclosed above were carried out on commercial terms. Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 8 and 14 to these financial statements. Other balances with related parties are disclosed in Note 15.

27. Related party transactions - continued

Expenditure amounting to €2,730,999 (2018: €2,326,533) has been recharged by the company to related parties forming part of Mizzi Organisation. The company's expenditure reflected in profit or loss comprises amounts recharged from a related party forming part of Mizzi Organisation of €103,148 (2018: €126,658).

Key management personnel comprise the directors of the company and of other related parties forming part of Mizzi Organisation. Key management personnel compensation in addition to director's remuneration as disclosed in Note 22, amounted to €56,740 (2018: €52,334). All amounts have been recharged by a related party forming part of Mizzi Organisation.

28. Events after the reporting period

With effect from March 2020 onwards, the outbreak of COVID-19 impacted negatively a number of operations of companies within the Mizzi Organisation. Whilst some sectors and certain companies were hit worse than others, Group management invested substantial efforts to safeguard as many jobs as possible and ensure survival of all the respective companies within the Organisation. Being heavily reliant on the tourism industry, the beverage sector was heavily impacted as the hospitality industry was brought to a standstill.

All companies forming part of the Organisation embarked on a cost-cutting exercise in areas such as payroll costs, direct departmental costs together with selling and administrative expenses. Particular emphasis has also been placed on the credit control function so as to ensure cash receipts from customers and debtors are flowing in regularly and in a sustained manner in order to meet cash outflows. Revised favourable credit term arrangements were negotiated with a number of suppliers, though substantially no concessions were granted to the Organisation by its property lessors.

On a group wide basis, the Mizzi Organisation took a number of initiatives to ensure effective management of available liquidity to fund the requirements of all operations impacted by COVID-19. The Organisation managed to secure favourable arrangements with banks in relation to the postponement of bank loan repayments and with suppliers in relation to the postponement of major capital expenditure payments. A number of Organisation companies have taken advantage of available Government aid, such as the deferral of VAT and tax payments, wage supplement schemes and quarantine leave supplements. The Organisation also encouraged utilisation of vacation leave to decrease accruals in this regard.

In view of the current situation brought about by the COVID-19 pandemic, the Organisation has prepared detailed financial and cash flow projections covering all its business lines for the financial years ended 31 December 2020 and 2021, based on historical financial information registered to date during 2020 and forecasts, factoring in the disorder created by the COVID-19 pandemic. These projections have been compiled as part of the preparation of a revised business plan. The projections are based on pessimistic assumptions for the base case scenario, reflecting the anticipated dismal performance during 2020 of specific Organisation business lines referred to above, with a gradual recovery in performance for the automotive, hotel, retail and catering businesses throughout 2021. The projected 2021 financial results for the core businesses within the Organisation are assumed to be significantly lower when compared to 2019 financial results. The projections also contemplate a stressed case scenario with sever business conditions throughout 2021. The cash flow projections take into account the financial support secured by the Organisation under the COVID-19 guarantee scheme managed by the Malta Development Bank. The sanction letter in the name of the company for additional facilities of €3.5 million, together with sanction letters in the name of Mizzi Organisation Limited for the secured additional facilities amounting to a further €12 million, have been approved and issued by the respective banks. These funds will assist the company and the Organisation in honouring committed capital expenditure and commitments with trade creditors.

28. Events after the reporting period - continued

The forecast for 2020 contemplates the projected existence of a significant liquidity buffer at the end of the year notwithstanding the expected adverse financial results, whilst positive cash flow generation is anticipated for 2021. The directors are further encouraged that as at the date of approval of these financial statements, all the business units of the Group are back in business and fully operational within the restrictions and guidelines issued by the Health Authorities. Furthermore, as business started to pick up gradually during the recent months, it was noted that actual performance across all business segments has been better than that forecasted within the 2020 projection.

Assuming stressed conditions are experienced throughout 2021, such that the projected financial results from the automotive business, the hotel, the retail and catering businesses are subdued in line with 2020 performance, whilst simultaneously projected property sales do not materialise, the Organisation would still be in a position to fund its group wide operations taking cognisance of liquidity available.

The Boards of Directors of Mizzi Organisation Limited and of the companies constituting the Mizzi Organisation feel confident that with the measures taken, the secured financing arrangements and the diversity of the Organisation's business lines, the companies within the Organisation shall overcome the disruptions brought about by this pandemic. The directors consider the Organisation and all Organisation companies to be a going concern. Hence the going concern assumption in the preparation of these financial statements is considered appropriate and there are no material uncertainties which may cast significant doubt about the ability of the Organisation and its companies to continue operating as a going concern.

29. Statutory information

The General Soft Drinks Company Limited is a limited liability company and is incorporated in Malta.