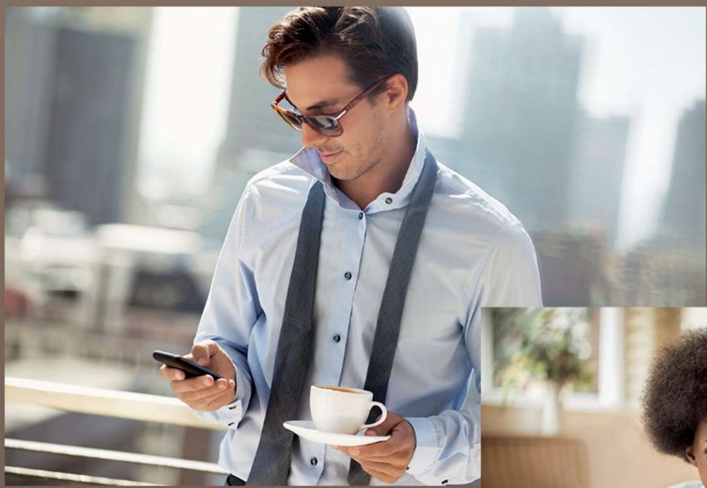
ANNUAL REPORT

2018



Dalla pianta alla tazzina, Massimo Zanetti Beverage Group è l'ambasciatore italiano del caffè nel mondo.

MASSIMO ZANETTI
BEVERAGE GROUP

Table of Contents

Parent Information

Massimo Zanetti Beverage Group S.p.A.

Registered Office
Viale G.G. Felissent, 53
31020 Villorba (Treviso)

Corporate Information
Share capital authorized Euro 34,300,000
Share capital subscribed and paid in Euro 34,300,000

Tax Code/Business Register/VAT No. 02120510371

Corporate and supervisory bodies of the Parent

Board of Directors

Massimo Zanetti
Chairman and Chief Executive Officer

Matteo Zanetti (**)
Director

Laura Zanetti (**)
Director

Massimo Mambelli
Director

Leonardo Rossi
Director

Maria Pilar Arbona Palmeiro Goncalves Braga Pimenta (**)
Director

Sabrina Delle Curti (*) (2) (4)
Director

Mara Vanzetta (*) (2) (3)
Director

Giorgio Valerio (*) (1) (4)
Director

(*) Independent Director pursuant to article 148, paragraph 3 of the TUF (Consolidated Law on Finance) and article 3 of the Code of Conduct
(**) Non-executive Director pursuant to article 2 of the Code of Conduct
(1) Chairman of the Nominating and Remuneration Committee
(2) Member of the Nominating and Remuneration Committee
(3) Chairman of the Audit and Risk Committee
(4) Member of the Audit and Risk Committee

Board of Statutory Auditors

Fabio Facchini
Chairman

Simona Gnudi
Standing Auditor

Franco Squizzato
Standing Auditor

Cristina Mirri
Alternate Auditor

Alberto Piombo
Alternate Auditor

Manager in charge of the preparation of corporate accounting documents

Leonardo Rossi

Independent Auditors

PricewaterhouseCoopers S.p.A.

DISCLAIMER

The document includes certain information considered to be "forward-looking statements" which are statements of expectation or belief, and therefore are not historical fact. By their very nature, they involve inherent risks and uncertainties, both general and specific, because they depend on the occurrence of future events and developments outside of the control of the Company. The actual results could therefore differ materially from the plans, objectives, expectations, estimates and intentions expressed in the forward-looking statements. Forward-looking statements use information available as at the date on which they are made, therefore Massimo Zanetti Beverage Group S.p.A. does not undertake any obligation to update or revise any of these after that date, whether as a result of new information, future events or otherwise, other than as required by applicable laws or regulations. The forward-looking statements do not represent and should not be considered to constitute legal, accounting, tax or investment advice of any kind, nor may the stakeholders rely on the same in any way to make investments of any kind.

MANAGEMENT REPORT

Introduction

With reference to the year ended December 31, 2018, the financial information included in this report and the comments reported therein are intended to provide an overview of the financial position and results of operations, the relevant changes that occurred during the year, and the significant events that have occurred affecting the results of the year.

Structure and Operations of the Group

Massimo Zanetti Beverage Group S.p.A. (the "**Company**" or the "**Parent**") and its subsidiaries (together referred to as the "**Group**" or "**MZB Group**") are international players in the production and sale of roasted coffee. In order to support its core business, the MZB Group also produces and sells (or grants free use of) coffee machines and coffee equipment for use in the home, the workplace and professional offices. The Group also operates an international network of cafés (primarily under a franchise model). To complement its range of products, the MZB Group sells certain selected colonial products (primarily tea, cocoa and spices) and other food products (including sauces, sugar, chocolates and biscuits). Finally, the Group sells certain goods and services, such as green coffee, that are related to its core business.

The Group sells roasted coffee and colonial and similar products, primarily in the following three sales channels, which are monitored separately by management: i) *Mass Market*, ii) *Foodservice*, and iii) *Private Label*.

Customers in the Mass Market channel are businesses which buy and sell food and drinks for domestic consumption (typically local shops, hyper and supermarkets chains (Large-Scale Retail Channel), door-to-door salesmen and the so-called cash & carry).

Customers in the Foodservice channel are businesses which buy and sell food and drinks for consumption outside the home (typically coffee shops, bars and cafés, restaurants, hotels, franchising chains, licensing chains, chains of road and highway service stations, on-board catering companies, as well as cafeterias, schools, hospitals, catering and vending machine companies).

Customers in the Private Label are customers from both the Mass Market or Foodservice channels that sell food and drinks produced and supplied by third parties under their own brands.

The Group operates mainly in: Italy, the USA, France, Finland, Portugal, Germany and Austria. The Group is also present, to a lesser extent in other countries such as the Netherlands, Poland, Switzerland, Belgium, Czech Republic, Denmark, Greece, Hungary, Slovakia, Slovenia, United Kingdom, Estonia, Croatia, Brazil, Argentina, Chile, Costa Rica, Mexico, Japan, Australia, New Zealand, Thailand, Malaysia, United Arab Emirates and Singapore.

The structure of the Group is defined by geographic area, distribution channel and product line. The top management periodically reviews the results to make decisions, allocate resources and define the strategy of the Group based on a single vision of the business, which, therefore, is represented by a single operating segment.

Recent developments for the year ended December 31, 2018

On April 10, 2018, the Ordinary Shareholders' Meeting of Massimo Zanetti Beverage Group S.p.A.: approved the 2017 financial statements and the proposed distribution of a unit dividend of Euro 0.17 per share, for a total of Euro 5,831 thousand.

Within the scope of the ordinary fund raising activities, the Group entered into a medium-to-long term loan agreement with Banca Popolare di Sondrio in April 2018 for an overall amount of Euro 15,000 thousand reaching maturity in 2025.

On June 18, 2018 Leonardo Rossi has been appointed by co-optation as new Director of the Board, to replace Mr. Larry Quier, in accordance with the agreed succession plan.
During the same meeting, the Board of Directors, in accordance with the agreed succession plan already mentioned, also resolved to appoint Leonardo Rossi as Chief Financial Officer, Director responsible for the internal control and risk management system and Responsible of the Inside Information Management Function. Those functions were previously assigned to Massimo Mambelli, Director of the Company who remains in the Board of Massimo Zanetti Beverage Group S.p.A.

In September, the group entered into a multiannual contract with Oracles Italia s.r.l, the Italian subsidiary of the American company Oracle Corporation, in order to implement a common ERP for all the subsidiaries of the group. The project, which has a duration of 4 years, will allow a more effective management of the company process, making the group more competitive and integrated.

During the third and fourth quarter of the year various reorganisation processes were launched in order to increase the efficiency of the group business activities, these processes generated non recurrent costs for Euro 2.494 thousand.

In October the Group announced to have signed the agreement for the acquisition of the business and the assets of a group of companies based in Melbourne known as “The Bean Alliance Group”. The deal, which is going to strengthen the Group presences on the australiain market was closed on February 1, 2019. The amount of the transaction was about AUD 24,000 thousand (Euro 15,200 thousand). Furthermore, the agreement provides for a potential earn-out to be paid in three annual instalments, in the case the specific annual qualitative and quantitative targets agreed be achieved.

Results of operations

Introduction

In addition to the financial statements and financial indicators required by the IFRS, this document presents reclassified financial statements and certain alternative performance indicators. Indeed, management believes that they enable readers to better assess the Group's financial position and financial performance. Such reclassified financial information and indicators should not be considered a substitute for financial information and indicators set forth by the IFRS.

The Group's business, while not showing significant seasonal or cyclical fluctuations in total annual revenue, is subject to different distribution in different months of the year which impact revenue and cost during the year.

Results of operations for the years ended December 31, 2018 and 2017

The following table sets forth the reclassified consolidated income statement for the years ended December 31, 2018 and 2017.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2018**	**(*)**	**2017**	**(*)**	**2018-2017**	
Revenue	891,203	100.0%	956,065	100.0%	(64,862)	-6.8%
Raw, ancillary, and consumable materials and goods	(502,407)	-56.4%	(558,693)	-58.4%	56,286	-10.1%
Gross Profit (1)	**388,796**	**43.6%**	**397,372**	**41.6%**	**(8,576)**	**-2.2%**
Purchases of services, leases and rentals	(174,125)	-19.5%	(183,140)	-19.2%	9,015	-4.9%
Personnel costs	(142,316)	-16.0%	(145,640)	-15.2%	3,324	-2.3%
Other operating costs, net (2)	640	0.1%	1,849	0.2%	(1,209)	-65.4%
Impairment (3)	(1,743)	-0.2%	(1,767)	-0.2%	24	-1.4%
EBITDA (1)	**71,252**	**8.0%**	**68,674**	**7.2%**	**2,578**	3.8%
Non-recurring charges	2,494	0.3%	6,292	0.7%	(3,798)	-60.4%
Adjusted EBITDA (1)	**73,746**	**8.3%**	**74,966**	**7.8%**	**(1,220)**	**-1.6%**
Depreciation and amortization (4)	(34,862)	-3.9%	(36,927)	-3.9%	2,065	-5.6%
Operating profit	**36,390**	**4.1%**	**31,747**	**3.3%**	**4,643**	**14.6%**
Net finance expense (5)	(7,259)	-0.8%	(7,996)	-0.8%	737	-9.2%
Share of losses of companies accounted for using the equity method	(879)	-0.1%	(787)	-0.1%	(92)	11.7%
Profit before tax	**28,252**	**3.2%**	**22,964**	**2.4%**	**5,288**	**23.0%**
Income tax expense	(8,355)	-0.9%	(4,854)	-0.5%	(3,501)	72.1%
Profit for the period	**19,897**	**2.2%**	**18,110**	**1.9%**	**1,787**	**9.9%**

(*) Percentage of revenue

Reconciliation between the reclassified consolidated income statement and the consolidated income statement:
(1) For additional information, refer to the "Non-GAAP" alternative performance indicators section.
(2) Includes other income and other operating costs
(3) Includes impairment of receivables
(4) Includes depreciation of property, plant and equipment and investment properties and amortization of intangible assets
(5) Includes finance income and finance costs

Revenue

Revenue amounted to Euro 891,203 thousand for the year ended December 31, 2018, a decrease of Euro 64,862 thousand (-6.8%) compared to the year ended December 31, 2017. This change is mainly due to the combined effect of:

- the decrease in the sales price of roasted coffee and other (-2.5%);
- the decrease in roasted coffee sales volumes (-1.4%); and
- foreign exchange rate impact(-2.5%).

Specifically, applying IFRS 15 on revenues, since January 1, 2018, has implied the reclassification, in reduction of revenues, of amounts given to customer without specific goods or services being provided for, especially in the *Mass Market* channel. For additional information, reference should be made to note *2.5* - "*Impacts from new accounting standards*".

On a comparable basis, the decrease in revenue Euro 36,992 thousand is mainly due to the change in the "Sale of roasted coffee" (Euro 33,039 thousand or -4.0%). This decrease is mainly due to the combined effect of:

- the decrease in the sales prices of roasted coffee, which resulted in a decrease in revenue of 2.4%, due to the change in the purchase price of green coffee in the last few months of 2018, as well as the different price mix in relation to channels in 2018 and 2017;
- the decrease in the volumes of roasted coffee sold amounted to 127,3 thousand tonnes and 129,4 thousand tonnes, respectively in year 2018 and 2017 which resulted in a decrease in revenue of 1.6%, compared with 2017. At group level, the decrease mainly affected the *Mass Market* channel and, to a lesser extent, the *Private lable* channel. Conversely, the *Foodservice* channel performed positively. With respect to the geographical areas, the decrease affected the Americas (2.7 thousand tonnes) driven by the *Mass Market* and *Private Label* channel, and to a lesser extend, Southern Europe (0.2 thousand tonnes). Conversely, Northern Europe increased (0.6 thousand tonnes), mainly in the *Mass Market* channel and the Asia-Pacific and Cafés area (0.2 thousand tonnes).

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2018 and 2017, by sales channel.

	For the year ended December 31,				**Change**	
(in thousands of Euro)	**2018**	**(*)**	**2017**	**(*)**	**2018-2017**	
Mass Market	208,784	23.4%	211,850	22.2%	(3,066)	-1.4%
Foodservice	327,362	36.7%	357,467	37.4%	(30,105)	-8.4%
Private Label	294,875	33.1%	325,197	34.0%	(30,322)	-9.3%
Other	60,182	6.8%	61,551	6.4%	(1,369)	-2.2%
Total	**891,203**	**100.0%**	**956,065**	**100.0%**	**(64,862)**	**-6.8%**

(*) Percentage of revenue.

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2018 and 2017, by geographical area.

	For the year ended December 31,				**Change**	
(in thousands of Euro)	**2018**	**(*)**	**2017**	**(*)**	**2018-2017**	
Americas	396,794	44.5%	447,407	46.8%	(50,613)	-11.3%
Northern Europe	180,564	20.3%	183,785	19.2%	(3,221)	-1.8%
Southern Europe	234,950	26.4%	247,163	25.9%	(12,213)	-4.9%
Asia-Pacific and Cafés (**)	78,895	8.9%	77,710	8.1%	1,185	1.5%
Total	**891,203**	**100.0%**	**956,065**	**100.0%**	**(64,862)**	**-6.8%**

(*) Percentage of revenue.
(**) This geographic area includes the revenue generated by the international network of cafés

Seasonality

The Group's business, while not showing significant seasonal or cyclical fluctuations, is not perfectly uniform throughout the year.

Gross profit

Gross profit amounted to Euro 388,796 thousand in 2018, a decrease of Euro 8,576 thousand (-2.2%) on 2017. The decrease is mainly due to the impact of exchange rates, mainly related to the US dollar fluctuations (- 2.1%) and the impact of IFRS 15 application.

On a comparable basis, *Gross Profit* increased by Euro 4,045 thousand (+1.0%), the increase is mainly due to the positive performance of the roasted coffee (+1.4%). The increase *Gross profit* related to roasted coffe (+1,6%) is mainly reconductable to the positive trends of sales prices and the purchase price of green and roasted coffee, besides to the different sales mix in 2018 and 2017 (+3,3%), partially compensated by the decrease in roasted coffee voulumes (-1.7%).

EBITDA and Adjusted EBITDA

The following table provides a reconciliation between EBITDA and the profit for the years ended December 31, 2018 and 2017.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2018**	**(*)**	**2017**	**(*)**	**2018-2017**	
Profit for the year	19,897	2.2%	18,110	1.9%	1,787	9.9%
Income tax expense	8,355	0.9%	4,854	0.5%	3,501	72.1%
Finance costs	7,596	0.9%	8,295	0.9%	(699)	-8.4%
Finance income	(337)	0.0%	(299)	0.0%	(38)	12.7%
Share of losses of companies accounted for using the equity method	879	0.1%	787	0.1%	92	11.7%
Depreciation and amortization(1)	34,862	3.8%	36,927	3.9%	(2,065)	-5.6%
EBITDA(2)	**71,252**	**8.0%**	**68,674**	**7.2%**	**2,578**	**3.8%**

(*) Percentage of revenue

(1) Includes depreciation of property, plant and equipment and investment properties and amortization of intangible assets

(2) For additional information, refer to the "Non-GAAP" alternative performance indicators section.

The following table provides a reconciliation between EBITDA and Adjusted EBITDA for the years ended December 31, 2018 and 2017:

	For the year ended December 31,				Change	
(in thousands of Euro)	**2018**	**(*)**	**2017**	**(*)**	**2018-2017**	
EBITDA(1)	71,252	8.0%	68,674	7.2%	2,578	3.8%
Non-recurring charges	2,494	0.3%	6,292	0.7%	(3,798)	100.0%
Adjusted EBITDA(1)	**73,746**	**8.3%**	**74,966**	**7.9%**	**(1,220)**	**-1.6%**

(*) Percentage of revenue.

(1) For additional information, refer to the "Non-GAAP" alternative performance indicators section

Adjusted EBITDA amounted to Euro 73,746 thousand in 2018, shows a decrease of Euro 1,220 thousand (-1.6%) compared with 2017. The result is mainly due to the aforementioned factors impacting *Gross Profit*, and the combined effect of:

- Impact of fluctuations of foreign exchange rates, negative for Euro 1,235 thousand;
- the increase in net operating costs for Euro 4,031 thousand which is mainly due to the increase of personnel costs (mainly in commercial & marketing for Asia Pacific & Cafes and Northen Europe area), and to the increase of services costs.

Operating profit

Operating profit amounted to Euro 36,390 thousand for the year ended December 31, 2018, with an increase of Euro 4,643 thousand (+14.6%) compared to the year ended December 31, 2017. In addition to the Adjusted EBITDA, mentioned earlier, the decrease is mainly attributable to *i)* the Euro 2,494 thousand non-recurring charges recognised in 2018 (of which mainly Euro 2,097 thousand refers to the reorganisation in Southern Europe) and *ii)* the Euro 2,065 thousand decrease in “Amortisation” (-5.6%), which are partially due to foreign rates fluctuations impact (Euro 533 thousand).

Profit for the year

The **profit for the year** amounted to Euro 19,897 thousand in 2018, an increase of Euro 1,787 thousand (+9.9%) compared to 2017. In addition to what previously described for Operating Profit, the increase is also due to the combined effect of:

- the decrease in net finance costs of Euro 737 thousand (-9.2%), mainly due to lower interest charges (Euro 496 thousand);
- the increase in the shares of losses of companies accounted for using the equity method, amounting to Euro 92 thousand;
- the increase in income taxes of Euro 3,501 thousand (+72.1%), mainly due to the higher deffered taxes. In 2017 the group had benefited from the changes in taxation policy in the USA.

Reclassified statement of financial position

The following table shows the reclassified statement of financial position of the Group as at December 31, 2018 and 2017:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Investments:		
Intangible assets	182,799	183,231
Property, plant and equipment and investment properties	219,898	217,717
Investments in joint ventures and associates	10,404	9,616
Non-current trade receivables	2,542	3,076
Deferred tax assets and other non-current assets	25,183	23,913
Non-current assets (A)	**440,826**	**437,553**
Net working capital (B)(1)	**94,437**	**92,199**
Employee benefits	(8,822)	(8,987)
Other non-current provisions	(3,190)	(2,986)
Deferred tax liabilities and other non-current liabilities(2)	(29,885)	(25,942)
Non-current liabilities (C)	**(41,897)**	**(37,915)**
Net invested capital (A+B+C)	**493,366**	**491,837**
Sources:		
Equity	318,648	300,882
Net Financial Indebtedness	174,718	190,955
Sources of financing	**493,366**	**491,837**

Reconciliation between the reclassified consolidated statement of financial position and the consolidated statement of financial position:

(1) For additional information, refer to the "Non-GAAP" alternative performance indicators section.

(2) Includes deferred tax liabilities and other non-current liabilities

The following table shows the composition of the Group's Net Working Capital as at December 31, 2018 and 2017:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Inventories	131,649	127,997
Trade receivables	120,832	123,405
Income tax assets	3,271	1,975
Other current assets (1)	15,603	15,868
Trade payables	(144,292)	(139,329)
Income tax liabilities	(1,664)	(1,433)
Other current liabilities	(30,962)	(36,284)
Net working capital(2)	**94,437**	**92,199**

(1) Other current assets excludes current financial receivables which are included in net financial indebtedness

(2) For additional information, refer to the "Non-GAAP" alternative performance indicators section.

Reclassified cash flow statement

The following table shows the reclassified cash flow statement for the years ended December 31, 2018 and 2017.

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Adjusted EBITDA (1)	**73,746**	**74,966**
Non-recurring items paid	(4,198)	(2,758)
Changes in Net Working Capital	(3,516)	10,527
Net recurring investments(2)	(31,567)	(34,911)
Income tax paid	(8,340)	(6,029)
Other operating items(3)	2,622	1,674
Free cash flow	**28,747**	**43,469**
Net non-recurring investments(4)	(1,200)	(3,360)
Investments (Disposals) in financial receivables(5)	(1,363)	1,718
Interest paid	(5,688)	(6,477)
Net cash generated from financing activities	(12,031)	16,987
Dividends paid	(5,999)	(5,305)
Exchange gains/(losses) on cash and cash equivalents	1,431	(2,605)
Net increase in cash and cash equivalents	**3,897**	**44,427**
Cash and cash equivalents at the beginning of the period	89,594	45,167
Cash and cash equivalents at the end of the period	**93,491**	**89,594**

Reconciliation between the reclassified cash flow statement and the consolidated cash flow statement:
(1) For additional information, refer to the "Non-GAAP" alternative performance indicators section.
(2) Net recurring investments include purchases of property, plant and equipment and intangible assets, excluding asset deals.
(3) Other operating items mainly include non-monetary income statement items not included in the Adjusted EBITDA
(4) Non-recurring investments include business combinations, including those under joint-control and asset deals
(5) Investments in financial receivables include the variations in financial receivables and interest received

Free Cash Flow positive for Euro 28,747 thousand in 2018, shows a decrease of Euro 14,772 thousand compared to 2017. The decrease is mainly due to the Euro 3,516 thousand reduction in net working capital.

The following table shows the composition of the changes in net working capital for the years ended December 31, 2018 and 2017.

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Changes in inventories	(1,378)	(1,811)
Changes in trade receivables	(832)	(8,699)
Changes in trade payables	2,245	23,011
Changes in other assets/liabilities	(2,775)	(1,351)
Payments of employee benefits	(776)	(623)
Changes in net working capital	**(3,516)**	**10,527**

The **changes in Net Working Capital**, negative for Euro 3,516 thousand in 2018, represent a decrease of Euro 14,043 thousand compared to 2017. The decrease is mainly due to *i)* the change in trade payables, negative by Euro 20,776 thousand, *ii)* the change in other assets/liabilities, negative by Euro 1,424 thousand, which was only partially offset by the change in commercial receivables, positive by Euro 7,867 thousand.

Net recurring investments amounted to Euro 31,567 thousand for the year ended December 2018. They show a decrease of Euro 3,344 thousand compared to the year ended December 31, 2017.

Net non-recurring investments amounted to Euro 1,200 thousand and Euro 3,360 thousand for the year ended December 31, 2018 and 2017, respectively.

The cash flow used in the net non-recurring investments for year 2018 relate to capital contribution to Virtus Pallacanestro Bologna S.S.D. a r.l., in which the share was 37,09% at the end of 2018.

The cash flow used in the net non-recurring investments in 2017 relate primarily to: *i)* the purchase of the business unit, Tru Blue, in Australia, *ii)* the purchase of Le.ma in Italy, *iii)* the purchase of the equity investment in PT Caswells Indonesia and *iv)* the subscription of the capital increase in the sports club Virtus Pallacanestro Bologna S.S.D. a R.L, of 40%.

Net cash absorbed from financing activities amounted to Euro 12,031 thousand for the year ended December 31, 2018. As December 31, 2017 financing activites generate a cashflow of Euro 16.987 thounsand.

The cash flow generated in 2018 was mainly due to *i)* the issue of new long-term loans, which, net of repayments in the period, amounted to Euro 8,875 thousand, *ii)* the increase in short-term loans (Euro 3,156 thousand).

The cash flow generated in 2017 was mainly due to *i)* the issue of new long-term loans, which, net of repayments in the period, amounted to Euro 15,176 thousand, *ii)* the increase in short-term loans (Euro 1,811 thousand)

Net Financial Indebtedness

The following table shows the breakdown of net financial indebtedness of the Group at December 31, 2018 and at December 31, 2017, determined in accordance with the CONSOB Communication dated July 28, 2006, and in compliance with the ESMA Recommendation 2013/319:

(in thousands of Euro)		**As at December 31, 2018**	**As at December 31, 2017**
A	Cash and cash equivalents	(964)	(803)
B	Cash at bank	(92,527)	(88,791)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(93,491)**	**(89,594)**
E	**Current financial receivables**	**(3,728)**	**(2,327)**
F	Current loans	49,651	53,014
G	Current portion of non-current loans	45,243	24,259
H	Other current financial payables	1,743	1,459
I	**Current indebtedness (F+G+H)**	**96,637**	**78,731**
J	**Net current indebtedness (I+E+D)**	**(582)**	**(13,190)**
K	Non-current loans	172,796	201,453
L	Issued bonds	-	-
M	Other non-current financial payables	2,504	2,692
N	**Non-current indebtedness (K+L+M)**	**175,300**	**204,145**
O	**Net financial indebtedness (J+N)**	**174,718**	**190,955**

Net Financial Indebtedness amounted to Euro 174,718 thousand at December 31, 2018, a decrease of Euro 16,238 thousand compared to December 31, 2017.

The impact of the *Free Cash Flow* on the Net Debt*,* negative for Euro 28,747 thousand at the end of 2018, was only partially offset by:

- net non-recurring investments of Euro 1,200 thousand in 2018;
- interest paid of Euro 5,688 thousand in 2018;
- dividends paid amounting to Euro 5,999 thousand;
- the Euro/USD foreign currency exchange rate impact and other non-cash items.

Capital expenditure

The following table sets forth capital expenditure in business combinations, property, plant and equipment and intangible assets for the years ended December 31, 2018 and 2017.

	For the year ended December 31,			
(in thousands of Euro)	2018		2017	
	Capital expenditure	Cash-out	Capital expenditure	Cash-out
Business combinations, including those under common control	-	-	2,659	2,319
Investments in associates	1,200	1,200	840	840
Intangible assets	2,784	2,784	1,222	1,222
Property, plant and equipment	29,806	29,806	34,694	34,694
Total non-current assets	**33,790**	**33,790**	**39,415**	**39,075**

Business combinations, including those under common control

No investment were done during year 2018.

Capital expenditure amounts to Euro 2,659 thousand in 2017 and mainly refers to the purchase of Le.ma and Tru Blue and the acquisition of 67% of PT Caswell Indonesia.

Investments in associates

The group has made a capital contribution for Euro 1,200 thousand and Euro 840 thousand, respectively in 2018 and 2017, to Virtus Pallacanestro Bologna S.S.D. a r.l., located in Bologna. Consequently to the capital increase partialy paid-up by other shareholders, the share held by the Group has decreased from the former 40% to the current 37.09%.

The Group is of the opinion that it exercises significant influence over the company and so it has been classified as an associated company and accounted for using the equity method.

Intangible assets

The investments of the year 2018 amount to Euro 2,096 thousand and refer mainly to the implementation of Group ERP software.

The investments of the year 2017 amount to Euro 1,222 thousand and refer to software (upgrading of the IT infrastructure in the US and the headquarters), and other assets and trademarks and licences.

Property, plant and equipment

Capital expenditure in property, plant and equipment at December 31, 2018 amounts to Euro 29,806 thousand and mainly relates to bar equipment (Euro 15,873 thousand),industrial and commercial equipment and other assets (Euro 5,606 thousand), plant and machinery (Euro 4,357 thousand) and asset in progress (Euro 2,434 thousand).

Capital expenditure in property, plant and equipment at December 31, 2017 amounts to Euro 34,694 thousand and mainly relates to bar equipment (Euro 19,007 thousand), industrial and commercial equipment and other assets (Euro 6,040 thousand) and plant and machinery (Euro 4,984 thousand).

Subsequent events

Please refer to Note 33 – *"Subsequent Events* "in the notes to the consolidated financial statements at December 31, 2018.

Business outlook

In view of the results achieved in 2018 and considering current market developments, the expectations relating to the Group's performance for 2019, assuming constant exchange rates and the absence of extraordinary transactions, with exception of transactions already announced in the first quarter of 2019, are as follows:

- slight increase in revenues driven by:
    - the improvement in product and channel mix;
    - growth in volumes in line with market trends;
- increase in adjusted EBITDA of approximately 3%- 5%;
- net debt expected to be around Euro 195 million.

These forecasts exclude the impact of the application of IFRS 16.

"Non-GAAP" alternative performance indicators

Company management evaluates the performance of the Group using certain indicators not required by IFRS. In particular, EBITDA is used as a primary indicator of profitability, since as it allows analysis of the profit margin of the Group, eliminating the effects of volatility due to non-recurring items or items unrelated to ordinary operations.

In accordance with Communication CESR/05-178b, a description of such items used by management is described below:

- *Gross Profit* is defined as the difference between revenue and raw materials, consumables, supplies and goods;
- *Gross Margin* is defined as the ratio of Gross Profit to Revenue;
- EBITDA is defined by the Group as the profit for the year gross of amortization and depreciation, financial income and costs, income taxes and losses for discontinued operations;
- EBITDA Margin is defined as the ratio of EBITDA to Revenue;
- Adjusted EBITDA is defined by the Group as EBITDA adjusted for non-recurring items;
- Adjusted EBITDA Margin is defined by the Group as the ratio of Adjusted EBITDA to Revenue;
- Net Working Capital is calculated as the sum of inventories, trade receivables, income tax receivables, contract assets and other current assets (excluding financial assets), net of trade payables, income tax liabilities, contract liabilities and other current liabilities;
- Net Invested Capital is defined as the sum of non-current assets, non-current liabilities and net working capital;
- *Free Cash Flow* is defined as the sum of EBITDA, changes in net working capital, net recurring investments, taxes paid and other operating items.

Related party transactions

For details regarding related party transactions in 2018, please refer to Note 32 *"Related Party Transactions*" of the notes to the consolidated financial statements at December 31, 2018.

In accordance with the regulations on transactions with related parties introduced pursuant to Consob Resolution no. 17221 dated March 12, 2010 as subsequently amended and integrated, the Company has adopted the procedure governing related-party transactions.

The aforementioned procedure was approved by the Board of Directors of the Company on July 15, 2015 and amended on August 28, 2015 and on June 18, 2018, with the approval of the independent directors.

The objective of the procedure is to ensure transparency and the substantial correctness of transactions with related parties and is published on the Company website – www.mzb-group.com.

Share price trend

Massimo Zanetti Beverage Group ordinary shares are traded on the Italian Electronic Stock Exchange (MTA) organised and managed by Borsa Italiana SpA and are identifiable by the following codes:

• ISIN Code: IT0005042467
• Reuters: MZB.MI;
• Bloomberg: MZB:IM.

The Group works towards constructing an ongoing and professional relationship with its shareholders in general and with institutional investors through Investor Relations.
More information is available in the Investors relations section of the Company's website.

At December 31, 2018, issued and fully paid share capital of the Parent amounted to Euro 34,300 thousand and comprised 34,300,000 ordinary shares without nominal value. At December 31, 2018, no categories of shares with voting or other rights have been issued aside from ordinary shares. In addition, no financial instruments that provide the right to subscribe newly issued shares have been issued.

On the basis of communications provided pursuant to article 120 of the Consolidated Law on Finance and other information available to the Company, at December 31, 2018, the significant equity investments in the share capital of the Parent are as follows: MZ Industries S.A. 68.047%.

Environment and personnel

In the various jurisdictions in which the Group operates, it is subject to specific laws and regulations governing products safety and labelling, environmental and workplace safety. The Group aims to carry out its business activities in compliance with all laws and regulations governing environmental and workplace safety and adopted all the procedures and actions to monitor potentially dangerous activities from environmental and workplace safety standpoint.

For additional information, reference should be made to the non-financial report prepared by the Group in accordance with Legislative decree no. 254/2016 and approved by the Board of Directors on February 28, 2018.

At December 31, 2018, the Group's workforce amounted to 3,359 with an increase of 54 compared to December 31, 2017. The following table shows the evolution of the number of employees employed by the Group as at December 31, 2018 and 2017, broken down by main categories.

(no.)	Average number of employees during the year		Number of employees as at December 31,	
	2018	2017	2018	2017
Executives	110	115	108	112
Managers and white collar staff	1,920	1,859	1,948	1,893
Blue-collar workers	1,301	1,312	1,303	1,300
Total	**3,332**	**3,286**	**3,359**	**3,305**

The following table shows the breakdown by major geographical area of the Group's employees at December 31, 2018 and 2017.

(no.)	As at December 31,	
	2018	2017
Americas	862	823
Northern Europe	554	549
Southern Europe	902	903
Asia-Pacific and Cafés	1,041	1,030
Total	**3,359**	**3,305**

Over the past three years, the Group companies have not made use of forms of social safety nets (or similar institutions in other jurisdictions) or other types of contracts with employees.

At December 31, 2018, there have not been, nor are there in progress, checks or assessments by the competent bodies regarding staff and safety at work relating to the group companies.

Corporate governance

The governance model adopted by the Group is in line with the application criteria and principles laid down in the Corporate Governance Code the Company adheres to. This model is aimed at maximising value for shareholders, at controlling business risks and ensuring greater transparency to the market, as well as ensuring integrity and correctness of decision-making processes.

The Company is organized based on the traditional model of administration and control as defined by regulations on listed issuers and by the guidance of the Corporate Governance Code and it is articulated as follows.

Shareholders' Meeting
It passes resolutions in ordinary and extraordinary sessions in relation to such matters as are reserved for the same by law or the By-laws.

Board of Directors
It is vested with the fullest powers for the administration of the Company, with the authority to perform any act it considers appropriate to the fulfilment of the Company's business purpose, except for those acts reserved to the Shareholders' Meeting by law or by the By-laws.

The Board of Directors in office at the date of this Report is comprised of 9 officers, of which three are non-executive and three independent, nominated at the shareholders' meeting of April 11, 2017. The officers will remain in office for three years, until the shareholders' meeting for the approval of the 2019 financial statements. On June 18, 2018 Leonardo Rossi has been appointed by co-optation as new Director of the Board, to replace Mr. Larry Quier, in accordance with the agreed succession plan. During the same meeting, the Board of Directors, in accordance with the agreed succession plan already mentioned, also resolved to appoint Leonardo Rossi as Chief Financial Officer, Director responsible for the internal control and risk management system and Responsible of the Inside Information Management Function. Those functions were previously assigned to Massimo Mambelli, Director of the Company who remains in the Board of Massimo Zanetti Beverage Group S.p.A.

Nominating and Remuneration Committee
The Nominating and Remuneration Committee has the task of assisting the Board of Directors with proactive and consultative functions of investigation, in the evaluations and decisions relating to the composition of the Board of Directors and remuneration of directors and managers with strategic responsibilities.

Audit and Risk Committee
The Audit and Risk Committee has the task of assisting the Board of Directors with propositional and consultative functions, in its assessments and decisions regarding the Internal Audit and Risk Management System and the approval of the periodical financial reports.

In support of the internal control and risk management system of the company, its Board of Directors appointed as responsible of the internal audit an external party to satisfy the need to draw on the expertise and experience of an absolutely independent party in order to implement internal control procedures. In October 2018 the Company has hired a person in order to support the responsible of internal audit in executing his tasks.

Lead Independent Director
On July 15, 2014, the Board of Directors appointed the position of Lead Independent Director, effective from the date of listing of the Company's ordinary shares on the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A. (June 3, 2015), for the purpose of representing a point of reference and coordination for the requests and contributions of non-executive directors and, in particular, independent directors.

Board of Statutory Auditors
The Board of Statutory Auditors has - inter alia - the task of monitoring: *i)* compliance with the law and by-laws and observance of the principles of proper business administration; *ii)* the adequacy and effectiveness of the company's organizational structure, internal control and risk management system, as well as the administrative and accounting system, and also the latter's reliability as a means of accurately reporting business operations; *iii)* any procedures for the actual implementation of the corporate governance rules provided for in the Corporate Governance Code; *iv)* the adequacy of the company's instructions to subsidiaries with regard to disclosures prescribed by law.
The current Board of Statutory Auditors was appointed unanimously by the Shareholders' Meeting on April 11, 2017. The officers will remain in office for three years, until the Shareholders' Meeting for the approval of the 2019 financial statements.

Manager in charge of the preparation of corporate accounting documents
On January 25, 2018, the Board of Directors, after consultation with the Board of Statutory Auditors, appointed Leonardo Rossi as Manager in charge of the preparation of corporate accounting documents, effective from February 1, 2018.

Organizational, Management and Control Model Pursuant to Legislative Decree no. 231/2001
On May 8, 2015, the Board of Directors adopted the measures set out in Legislative Decree no. 231/2001 to obtain the Company's exemption from liability for criminal offences committed by persons holding top positions in the company and those reporting to them ("**231 Model**").

In particular, the Board of Directors adopted the 231 Model and appointed the supervisory body, with the task of monitoring compliance with and constant updating of the 231 Model. The Organizational, management and control model was subsequently updated by the Board of Directors in its resolutions dated August 28, 2015, March 8, 2016 and August 8, 2017.

Corporate governance report
The Company prepared a Report on corporate governance and ownership structure that describes the corporate governance system adopted as well as information on the ownership structure and the internal control and risk management system. The Report - which covers 2018 - can be consulted, in full version, on the Company's website www.mzb-group.com.

Risk management

Risk related to the Group's concentration in the roasted coffee business
The results of the Group are significantly correlated to the performance of the coffee market, both at the global and national levels, in the Group's main markets. In particular, the Group's revenues are related to the sales price of roasted coffee and sales volumes, as well as the change in exchange rates.

Risk of fluctuations in the prices of green coffee and other raw materials used by the Group
The price of green coffee is characterized by a high level of volatility due to various factors, such as, speculation in the relevant reference market, weather changes or natural disasters, deficiencies - actual or perceived - and damage to crops. In order to reduce the impact of fluctuations in raw material prices, the Group, on the one hand, adopts procurement policies for raw materials (in particular for raw coffee) to reduce the effects of such fluctuations, and on the other hand, policies aimed at transferring these price changes to the selling prices of its products.

Risk associated with the procurement of raw materials and semi-finished goods
The Group purchases raw materials needed for the manufacture of its products through a network of selected suppliers, some of which - as regards the supply of green coffee - are companies previously belonging to the Group.
The Group has set up internal procedures for the selection of its supplies that are based on minimum quality standards and financial standing in order to guarantee operations and control the costs related to the acquisition of raw materials and semi-finished products. The Group also performs periodic control activities to ensure the compliance with the aforementioned requirements.

Risk related to the concentration of sales to principal clients
The Group's sales of roasted coffee in the *Mass Market* and *Private Label* channels are concentrated on a limited number of major customers. Although the Group has good relationships with key customers, particularly in the *Private Label* channel, it may not be able to maintain these business relationships with existing major customers in the future, or develop new ones. The Group may also need to replace and/or modify the agreements currently in place with one or more of its main customers, which could negatively affect the Group's growth prospects as well as its results and financial position.

Risk related to legal proceedings
At the date of these financial statements, the Group is involved in ongoing legal proceedings, for which it has recognized accounting provisions where an adverse outcome to the Group is probable. Such legal proceedings may result in the payment of amounts that have not been provided for, resulting in negative effects on the Group's results and financial position.

For further details, please refer to Note 19 – *"Other non-current provisions"* of the notes to the consolidated financial statements.

Risk related to the early repayment of borrowings made available to the Group
As a result of contractual clauses, the borrowings of the Group are exposed to the risk of early repayment upon the occurrence of certain events, whereby the lenders can, in summary, *i)* cancel credit lines made available, and *ii)* demand that the loans be fully reimbursed.
In particular, some borrowings contain certain covenants that when not complied with will result in the obligation to pay an additional spread or the right of the lenders to demand full or accelerated repayment.

Risk related to interest rate fluctuations
The majority of the Group's long-term borrowings are subject to floating rates of interest.
The Group utilizes derivative financial instruments (mainly interest rate swaps) to partially hedge cash flows, with the objective of fixing the interest rates in accordance with its financial risk management policies.

Although the Group has an active risk management policy, in the event of an increase in interest rates, the increase in finance costs relating to variable rate borrowings that are not hedged could negatively affect the Group's results and financial position.

Risk related to foreign currency exchange rate fluctuations
The Group is exposed to fluctuations in exchange rates, particularly with respect to the USD, in relation to: *i)* purchases of green coffee (the main raw material used by the Group), which are typically denominated in USD; *ii)* the presence in international markets, including through companies located in foreign countries with a functional currency other than the Euro, including, in particular, companies whose functional currency is the USD.

In order to reduce exposure to exchange rate risk resulting from cash flows denominated in USD, the Group, where necessary, uses forward contracts, fixing the exchange rates of the functional currencies of the Group companies towards the USD.

In order to reduce the exchange rate risk deriving from unfavourable movements in foreign exchange rates (in particular USD to Euro) at which net investments in overseas assets are translated, the Group makes use of non-derivative financial instruments (long-term loans denominated in USD).

Please refer to Note 3 – "*Management of Financial Risks*" in the consolidated financial statements for further details relating to the nature and management of financial risks.

Other information

Unusual transactions and/or events
No significant unusual transactions and/or events occurred in the period which have an impact on the Group's results of operations or financial position.

Treasury shares
The Company does not possess nor did it possess treasury shares as at December 31, 2018, not even through a third party or trust company, and therefore, has not pursued purchase operations of such shares during the period.

Issuers' Regulation - Article 36
In accordance with CONSOB provisions contained in the Issuers Regulation and specifically Article 36 of Resolution 16191/2007, the Company performed the controls on the subsidiaries that were incorporated and are governed under the laws of non-EU Member States and that, as a result, were deemed "material" based on the requirements under Article 151 of the Issuers' Regulations adopted with CONSOB Resolution 11971/1999. With respect to the non-EU foreign subsidiaries Massimo Zanetti Beverage USA, Inc, Boncafe International Pte Ltd and Kauai Coffee Company LLC, identified based on the above regulations and in compliance with the provisions of local laws, these checks revealed the existence of an adequate administrative and accounting system and the additional requirements envisaged in article 36.

Information pursuant to Articles 70 and 71 of Issuers' Regulations
The Company adopted the simplification regime under Articles 70/8 and 71/1-bis of the Issuers' Regulations, adopted with CONSOB Resolution 11971/1999, as subsequently amended. The Company chose the option to make exceptions to the obligation to issue the documents required by the law when transactions of greater importance (such as mergers, spin-offs, capital increases by means of the conferral of assets in kind, acquisitions or disposals) occur.

Research and development
The research and development of the Group focus primarily on marketing and brands and it is almost totally included in marketing activity and does not constitute an independent source of cost.

In the consolidated financial statements, research and development costs that do not meet the conditions for capitalization as intangible assets under IFRS are expensed as incurred in the income statement and classified as costs included in operating profit.

Reclassified income statement and reclassified statement of financial position of the Parent

Reclassified income statement of the Parent for the years ended December 31, 2018 and 2017

The following table sets forth the reclassified income statement for the years ended December 31, 2018 and 2017.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2018**	**(*)**	**2017**	**(*)**	**2018-2017**	
Revenue	10,622	100.0%	8,143	100.0%	2,479	30.4%
Raw, ancillary, and consumable materials and goods	(35)	-0.3%	(54)	-0.7%	19	-34.9%
Purchases of services, leases and rentals	(2,675)	-25.2%	(2,094)	-25.7%	(581)	27.7%
Personnel costs	(5,973)	-56.2%	(5,453)	-67.0%	(520)	9.5%
Other operating costs, net(1)	(124)	-1.2%	(157)	-1.9%	33	-21.1%
EBITDA(2)	**1,816**	**17.1%**	**386**	**4.7%**	**1,430**	**< -100%**
Amortization and depreciation	(738)	-6.9%	(708)	-8.7%	(30)	4.2%
Operating profit	**1,078**	**10.1%**	**(322)**	**-4.0%**	**1,400**	**< -100%**
Net finance income(3)	6,837	64.4%	5,901	72.5%	936	15.9%
Profit before tax	**7,914**	**74.5%**	**5,579**	**68.5%**	**2,336**	**41.9%**
Income tax expense	(127)	-1.2%	1,142	14.0%	(1,269)	< -100%
Profit for the year	**7,788**	**73.3%**	**6,721**	**82.5%**	**1,067**	**15.9%**

Reconciliation between the reclassified income statement and the income statement:

(1) Includes other income and other operating costs
(2) For additional information, refer to the “Non-GAAP” alternative performance indicators section.
(3) Includes finance income and finance costs

Reclassified statement of financial position of the Parent as at December 31, 2018

The following table shows the reclassified statement of financial position of the Parent as at December 31, 2018 and 2017.

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Investments:		
Intangible assets	1,944	682
Property, plant and equipment	13,272	13,526
Investments in subsidiaries	262,370	259,370
Non-current financial receivables	33,925	41,524
Deferred tax assets	3,889	3,923
Non-current assets	**315,400**	**319,025**
Net working capital(1)	**(3,023)**	**(2,948)**
Employee benefits	(354)	(301)
Deferred tax liabilities and other non-current liabilities(2)	(1,169)	(1,146)
Non-current liabilities	**(1,523)**	**(1,447)**
Net invested capital	**310,854**	**314,630**
Sources:		
Equity	160,082	158,130
Net Financial Indebtedness	150,772	156,500
Sources of financing	**310,854**	**314,630**

Reconciliation between the reclassified statement of financial position and the statement of financial position:
(1) For additional information, refer to the "Non-GAAP" alternative performance indicators section.
(2) Includes deferred tax liabilities and other non-current liabilities

Net Financial Indebtedness

The following table sets forth a breakdown of Net Financial Indebtedness of the Parent at December 31, 2018 and 2017, determined in accordance with CONSOB communication dated July 28, 2006 and in compliance with the Recommendation ESMA/2013/319:

		As at December 31,	
	(in thousands of Euro)	**2018**	**2017**
A	Cash and cash equivalents	(2)	(6)
B	Cash at bank	(33,211)	(32,322)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(33,213)**	**(32,328)**
E	**Current financial receivables**	**(8,160)**	**(7,477)**
F	Current loans	6,000	5,996
G	Current portion of non-current loans	38,487	16,316
H	Other current financial payables	2,976	5,778
I	**Current indebtedness (F+G+H)**	**47,463**	**28,090**
J	**Net current indebtedness (I+E+D)**	**6,090**	**(11,715)**
K	Non-current loans	143,999	167,436
L	Issued bonds	-	-
M	Other non-current financial payables	683	779
N	**Non-current indebtedness (K+L+M)**	**144,682**	**168,215**
O	**Net financial indebtedness (J+N)**	**150,772**	**156,500**
	of which due to third parties	156,048	158,292
	of which due to related parties	(5,276)	(1,792)

Reconciliation of the Parent and Group net profit and shareholders' equity

Pursuant to the Consob communication of 28 July 2006, the table below shows a reconciliation between the net profit for the period and shareholders' equity for Massimo Zanetti Beverage Group S.p.A and the Group.

As at December 31, 2018 *(in thousands of Euro)*	**Equity**	**Profit for the year**
Figures from the annual financial statements of Massimo Zanetti Beverage Group S.p.A.	**160,082**	**7,788**
Difference between carrying amount and pro rata value of shareholders' equity of investments	166,489	-
Pro rata results of subsidiaries	-	27,454
Elimination of intercompany dividends	-	(15,337)
Elimination of intercompany profit	(2,548)	(8)
Currency translation differences	(5,375)	-
Figures from the consolidated financial statements	**318,648**	**19,897**

Proposed resolution concerning net profit for the year

Dear Shareholders,

We submit the following proposed resolution for your approval:

"The Massimo Zanetti Beverage Group S.p.A. Ordinary Shareholders' Meeting

- having heard and approved the information provided by the Board of Directors;
- having examined the separate financial statements of Massimo Zanetti Beverage Group S.p.A. at December 31, 2018 e and the Management Report;
- having acknowledged the report of the Board of Statutory Auditors and the independent auditors' report, having examined the consolidated financial statements at December 31, 2018,

hereby resolves :

1. to approve the separate financial statements of Massimo Zanetti Beverage Group S.p.A. at December 31, 2018;

2. to approve the following allocation of the net profit of Massimo Zanetti Beverage Group S.p.A. for 2018 totalling Euro 7,787,812 as follows:
   - Euro 389,391 to the legal reserve;
   - Euro 7,398,421 to retained earnings

3. to distribute a dividend of 0.19 Euro for each dividend-bearing share (gross of taxes), using the funds available in the "Other Reserves", for a total amount of Euro 6,517,000.

For the Board of Directors
President and CEO

Massimo Zanetti

Villorba (Treviso), February 28, 2019

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

Consolidated Income Statement

(in thousands of Euro)	Note	For the year ended December 31, 2018	2017
Revenue	**21**	891,203	956,065
Other income	**22**	6,954	8,560
Raw, ancillary, and consumable materials and goods	**23**	(502,407)	(558,693)
Purchases of services, leases and rentals	**24**	(174,125)	(183,140)
Personnel costs	**25**	(142,316)	(145,640)
Other operating costs	**26**	(6,314)	(6,711)
Amortization, depreciation and impairment	**27**	(36,605)	(38,694)
Operating profit		**36,390**	**31,747**
Finance income	**28**	337	299
Finance costs	**28**	(7,596)	(8,295)
Share of losses of companies accounted for using the equity method		(879)	(787)
Profit before tax		**28,252**	**22,964**
Income tax expense	**29**	(8,355)	(4,854)
Profit for the year		**19,897**	**18,110**
Profit attributable to:			
Non-controlling interests		*105*	*174*
Owners of the parent		*19,792*	*17,936*
Basic/diluted earnings per share (in Euro)	**30**	**0.58**	**0.52**

Consolidated Statement of Comprehensive Income

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Profit for the period	**19,897**	**18,110**
Gains/(Losses) from cash flow hedges	774	(2,181)
Currency translation differences	5,936	(19,660)
Items that may be subsequently reclassified to profit or loss	**6,710**	**(21,841)**
Remeasurements of employee benefit obligations	129	(154)
Items that will not be reclassified to profit or loss	**129**	**(154)**
Total comprehensive income/(loss) for the period	**26,736**	**(3,885)**
Comprehensive income attributable to non-controlling interests	92	160
Comprehensive income/(loss) attributable to owners of the parent	**26,644**	**(4,045)**

Consolidated Statement of Financial Position

(in thousands of Euro)	Note	As at December 31, 2018	As at December 31, 2017
Intangible assets	**7**	182,799	183,231
Property, plant and equipment	**8**	215,127	212,830
Investment properties	**9**	4,771	4,887
Investments in joint ventures and associates	**10**	10,404	9,616
Non-current trade receivables	**11**	2,542	3,076
Deferred tax assets	**12**	11,828	10,244
Non-current contract assets		6,781	-
Other non-current assets	**13**	6,574	13,669
Total non-current assets		**440,826**	**437,553**
Inventories	**14**	131,649	127,997
Trade receivables	**11**	120,832	123,405
Income tax assets		3,271	1,975
Current contract assets		3,759	-
Other current assets	**13**	15,572	18,195
Cash and cash equivalents	**15**	93,491	89,594
Total current assets		**368,574**	**361,166**
Total assets		**809,400**	**798,719**
Share capital		34,300	34,300
Other reserves		99,396	98,162
Retained earnings		183,069	166,443
Total equity attributable to owners of the Parent		**316,765**	**298,905**
Non-controlling interests		1,883	1,977
Total equity	**16**	**318,648**	**300,882**
Non-current borrowings	**17**	175,300	204,145
Employee benefits	**18**	8,822	8,987
Other non-current provisions	**19**	3,190	2,986
Deferred tax liabilities	**12**	26,863	22,895
Non-current contract liabilities		483	-
Other non-current liabilities	**20**	2,539	3,047
Total non-current liabilities		**217,197**	**242,060**
Current borrowings	**17**	96,637	78,731
Trade payables		144,292	139,329
Income tax liabilities		1,664	1,433
Current contract liabilities		946	-
Other current liabilities	**20**	30,016	36,284
Total current liabilities		**273,555**	**255,777**
Total liabilities		**490,752**	**497,837**
Total equity and liabilities		**809,400**	**798,719**

Consolidated Statement of Cash Flows

(in thousands of Euro)	Note	For the year ended December 31, 2018	2017
Profit before tax		**28,252**	**22,964**
Adjustments for:			
Amortization, depreciation and impairment	**27**	36,605	38,694
Provisions for employee benefits and other charges	**26**	1,102	561
Net finance expense	**28**	7,259	7,996
Other non-monetary items		(1,048)	3,667
Net cash generated from operating activities before changes in net working capital		**72,170**	**73,882**
Changes in inventories	**14**	(1,378)	(1,811)
Changes in trade receivables	**11**	(832)	(8,699)
Changes in trade payables		2,245	23,011
Changes in other assets/liabilities	**13/20**	(2,775)	(1,351)
Payments of employee benefits	**18**	(776)	(623)
Interest paid	**28**	(5,688)	(6,477)
Income tax paid		(8,340)	(6,029)
Net cash generated from operating activities		**54,626**	**71,903**
Acquisition of subsidiary, net of cash acquired	**5**	-	(2,583)
Purchase of property, plant and equipment	**8**	(29,806)	(35,394)
Purchase of intangible assets	**7**	(2,784)	(1,222)
Proceeds from sale of property, plant and equipment	**8**	1,005	1,699
Proceeds from sale of intangible assets	**7**	18	6
Investments in joint ventures and associates	**10**	(1,200)	(777)
Changes in financial receivables		(1,528)	1,575
Interest received		165	143
Net cash used in investing activities		**(34,130)**	**(36,553)**
Proceeds from long-term borrowings	**17**	15,360	67,433
Repayment of long-term borrowings	**17**	(24,235)	(52,257)
Increase / (decrease) in short-term borrowings		(3,156)	1,811
Dividends paid	**16**	(5,999)	(5,305)
Net cash (used)/generated from financing activities		**(18,030)**	**11,682**
Exchange gains/(losses) on cash and cash equivalents		1,431	(2,605)
Net increase in cash and cash equivalents		**3,897**	**44,427**
Cash and cash equivalents at the beginning of the period		89,594	45,167
Cash and cash equivalents at the end of the period		**93,491**	**89,594**

Consolidated Statement of Changes in Equity

(in thousands of Euro)	**Share capital**	**Other reserves**	**Retained earnings**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total**
As at December 31, 2016	**34,300**	**124,738**	**149,057**	**308,095**	**1,849**	**309,944**
Profit for the year	-	-	17,936	17,936	174	**18,110**
Remeasurements of employee benefit obligations	-	-	(140)	(140)	(14)	**(154)**
Losses from cash flow hedges	-	(2,181)	-	(2,181)	-	**(2,181)**
Currency translation differences	-	(19,660)	-	(19,660)	-	**(19,660)**
Total income for the period	**-**	**(21,841)**	**17,796**	**(4,045)**	**160**	**(3,885)**
Change in scope of consolidation	-	-	-	-	128	**128**
Shareholders transactions						**-**
Dividends paid	-	(5,145)	-	(5,145)	(160)	**(5,305)**
Reclassifications	-	410	(410)	-	-	**-**
As at December 31, 2017	**34,300**	**98,162**	**166,443**	**298,905**	**1,977**	**300,882**
Effect of the first application of IFRS 9	**-**	**-**	(2,953)	(2,953)	(17)	**(2,970)**
As at 1 January 2018	**34,300**	**98,162**	**163,490**	**295,952**	**1,960**	**297,912**
Profit for the year	-	-	19,792	19,792	105	**19,897**
Remeasurements of employee benefit obligations	-	-	123	123	6	**129**
Gain from cash flow hedges	-	774	-	774	-	**774**
Currency translation differences	-	5,955	-	5,955	(19)	**5,936**
Total income for the period	**-**	**6,729**	**19,915**	**26,644**	**92**	**26,736**
Dividends paid	-	(5,831)	-	(5,831)	(168)	**(5,999)**
Reclassifications	-	336	(336)	-	-	**-**
As at December 31, 2018	**34,300**	**99,396**	**183,069**	**316,765**	**1,883**	**318,648**

Notes to the Consolidated Financial Statements

1 General information

Massimo Zanetti Beverage Group S.p.A. (the "**Company**" or the "**Parent**"), a company established and domiciled in Italy, is organized and governed under the laws of the Republic of Italy. The registered offices of the Parent are located in Viale Felissent 53, Villorba (Treviso). The Company is controlled by Massimo Zanetti Industries S.A. ("**MZ Industries**"), based in Luxembourg.

The Company and its subsidiaries (the "**Group**") operate in the coffee business. In particular, the Group manages numerous well-known international brands and a vast assortment of regional products, including coffee, tea, cocoa and spices.

The Company has been listed on the STAR segment of the Mercato Telematico Azionario - MTA (screen-based stock exchange) managed and organised by Borsa Italiana S.p.A. (Italian Stock Exchange) since June 3, 2015.

The consolidated financial statements were audited by PricewaterhouseCoopers SpA, who was appointed as independent auditor of the Company and its most significant subsidiaries.

2 Accounting policies

The principal accounting policies and criteria adopted in preparing the consolidated financial statements are described below.

2.1. Basis of Preparation

The consolidated financial statements as at and for the year ended December 31, 2018 (the "**Consolidated Financial Statements**"), approved by the Parent's Board of Directors on February 28, 2019, have been prepared on a going concern basis. Management has confirmed the absence of any financial, operational or other indicator that might call into question the ability of the Group to meet its obligations in the foreseeable future and, in particular, over the next twelve months. The approach adopted by the Group for the management of financial risks is discussed in Note 3 "*Management of financial risks*" below.

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). In this context, IFRS means all the "International Financial Reporting Standards", all the "International Accounting Standards" (IAS), and all the interpretations of the "International Financial Reporting Interpretations Committee" (IFRIC), previously known as the "Standing Interpretations Committee" (SIC), that, at the date of approving the Consolidated Financial Statements, had been endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002. In particular, the IFRS have been applied consistently to all the periods presented in this document, except as described in Note 2.6 "*Recently-Issued Accounting Standards*".

The Consolidated Financial Statements have been prepared and presented in Euro. Unless otherwise indicated, all amounts included in this document are stated in thousands of Euro.

Financial statement formats and related classification criteria adopted by the Group, in accordance with IAS 1 – *Presentation of Financial Statements*, are as follows:

- the *consolidated statement of financial position* classifies assets and liabilities using the "current/non-current" criterion;

- the *consolidated income statement* classifies operating costs by nature;
- the *consolidated statement of comprehensive income* includes income and costs not recognised in the income statement for the year, as required or allowed by IFRS, such as changes in the hedging reserve, in the actuarial reserve and in the translation reserve;
- the *consolidated statement of cash flows* presents the cash flows generated by operating activities using the "indirect method".

The Consolidated Financial Statements have been prepared under the historical cost convention, except with regard to the measurement of financial assets and liabilities, where application of the fair value criterion is required.

2.2. Scope of Consolidation and Changes

The companies included within the scope of consolidation at December 31, 2018 and 2017 are listed in appendix 1.

Please refer to Note 5 *"Business Combinations"* for further information about the principal changes in the scope of consolidation during the years ended December 31, 2018 and 2017.

2.3. Consolidation Principles and Methodology

Subsidiaries

Subsidiaries are those entities over which the Company exercises control. The Company controls an entity when it is exposed to or exercises rights over the results of the subsidiary as a result of its involvement with the subsidiary and it is able to influence such results through exercise of its power.

Control may be exercised as a result of direct or indirect ownership of the majority of shares with voting rights, or as a consequence of contractual or legal agreements that may be unrelated to the ownership of equity. The existence of potential voting rights exercisable is considered when determining whether or not control exists.
In general, control is presumed to exist when the Company holds, directly or indirectly, the majority of voting rights.
Subsidiaries are consolidated on a line-by-line basis from the date on which control is acquired and are deconsolidated on the date on which control is transferred to a third party.

The principles adopted for line-by-line consolidation are as follows:

- the assets, liabilities, revenues and expenses of the subsidiaries are consolidated on a line-by-line basis, attributing to the non-controlling interests, where applicable, their share of equity and profit or loss for the year which is shown separately in equity and in the consolidated income statement;
- in accordance with IFRS 3, business combinations are accounted for using the acquisition method. Under this method, the consideration transferred for the acquisition is measured at fair value, represented by the sum of the fair values of the assets transferred and the liabilities assumed by the Group at the acquisition date and the equity instruments issued in exchange for control over the entity acquired. Transaction-related expenses are generally charged to the income statement as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are measured at fair value, except for the following items which are measured in accordance with the applicable standard: *i)* deferred tax assets and liabilities, *ii)* assets and liabilities for employee benefits and *iii)* assets held for sale. In the case in which it is only possible to estimate provisionally the fair value of assets, liabilities and potential liabilities, the business combination is accounted for on the basis of provisional estimated values. Any subsequent corrections required following completion of the valuation process are accounted for within 12 months of the acquisition date;

- if an element of the consideration depends on the outcome of future events, such element is included in the estimate of fair value at the time of the business combination;
- significant gains and losses and related tax effects deriving from transactions between consolidated entities on a line-by-line basis, are generally eliminated if not yet realized. Losses are not eliminated, however, if the transaction provides evidence that the value of the asset transferred is impaired. Intercompany receivables and payables, costs and revenues, and financial income and expense are also eliminated, if significant; and
- the acquisition of further shares in subsidiaries and any sale of shares which do not lead to loss of control are accounted for as transactions between shareholders; as such, the accounting effects of such operations are reflected directly in the Group equity.

Business combinations under common control

Business combinations occurring between entities that are controlled by the same entity/person or entities/persons both before and after the combination, where such control is not transitory, are known as transactions "*under common control"*.

Such transactions are explicitly not covered by IFRS 3 or by any other IFRS. In the absence of a relevant accounting standard and in accordance with IAS 8, in preparing the Consolidated Financial Statements the Group has accounted for the entities acquired and disposed of on the basis of their accounting values in the financial statements of MZ Industries, at the transaction date. Where, in cases with no significant influence on future cash flows of the net assets transferred, the value on transfer of such entities differs from that accounted for in the financial statements of the controlling party, the difference is recorded in net equity.

Joint ventures and associates

Joint ventures

Joint ventures refer to those entities in which the Group exercises control together with another entity. Such entities, which are classified as joint ventures, are accounted for using the equity method.

Under the equity method, the Group's share of the entity's profit or loss for the year is accounted for in the income statement, with the exception of any other changes in the net equity of the entity which are recorded in the statement of comprehensive income.
In the case of losses incurred in excess of the carrying value of the investment, to the extent to which the venturer has legal or implicit obligations with regard to the joint venture or is required to cover its losses, the excess loss is accounted for by the venturer as a liability.

Associates

Associates are those entities in which the Group has a significant influence. They are recognised using the equity method which is applied similarly to joint ventures.

The following table sets out certain information relating to the joint ventures and the associates included in the Consolidated Financial Statements:

	For the year ended December 31,	
(in thousands of Euro)	2018	2017
Assets	56,243	57,315
Liabilities	35,582	41,283
Revenue	133,513	136,434
Loss for the year	2,336	(3,003)

The financial statements of subsidiaries are prepared in the currency of the primary economic environment in which they operate. Financial information presented in currencies other than the Euro are translated into Euro as follows:

- assets and liabilities are translated using the exchange rates applicable at the reporting date;
- revenues and expenditures are translated using the average exchange rate for the year; and
- the reserve for currency translation differences includes exchange differences generated by translating balances at a rate other than the closing rate, as well as those generated by translating opening assets and liabilities at a rate other than the rate applicable at the reporting date.

The following exchange rates were used to translate the non-Euro financial statements of subsidiaries at December 31, 2018 and 2017:

Currency		Average exchange rate		Exchange rate as at December 31,		
		2018	2017	2018	2017	2016
US Dollar	USD	1.18	1.13	1.15	1.20	1.05
United Arab Emirates Dinar	AED	4.34	4.15	4.21	4.40	3.87
Argentine Peso	ARS	32.91	18.73	43.16	22.93	16.75
Australian Dollar	AUD	1.58	1.47	1.62	1.53	1.46
Brazilian Real	BRL	4.31	3.60	4.44	3.97	3.43
Canadian Dollar	CAD	1.53	1.46	1.56	1.50	1.42
Swiss Franc	CHF	1.16	1.11	1.13	1.17	1.07
Chilean Peso	CLP	756.94	732.19	794.37	737.29	704.95
Costarican Colon	CRC	681.44	640.87	694.77	682.85	580.81
Czech Koruna	CZK	25.65	26.33	25.72	25.54	27.02
Danish Crown	DKK	7.45	7.44	7.47	7.44	7.43
Renminbi (Yuan)	CNY	7.81	n.a.	7.88	n.a.	n.a.
British Pound	GBP	0.88	0.88	0.89	0.89	0.86
Hong Kong Dollar	HKD	9.26	8.80	8.97	9.37	8.18
Croatian Kuna	HRK	7.42	7.46	7.41	7.44	7.56
Hungarian Forint	HUF	318.89	309.27	320.98	310.33	309.83
Indonesian Rupiah	IDR	16,803.22	15,113.20	16,500.00	16,239.12	n.a.
Japanese Yen	JPY	130.40	126.65	125.85	135.01	123.40
Mexican Peso	MXN	22.71	21.33	22.49	23.66	21.77
Malaysian Ringgit	MYR	4.76	4.85	4.73	4.85	4.73
New Zealand Dollar	NZD	1.71	1.59	1.71	1.69	1.52
Polish Zloty	PLN	4.26	4.26	4.30	4.18	4.41
Romanian Leu	RON	4.65	4.57	4.66	4.66	4.54
Singapore Dollar	SGD	1.59	1.56	1.56	1.60	1.52
Thai Baht	THB	38.16	38.28	37.05	39.12	37.73
Vietnamese Dong	VND	27,180.00	25,652.00	26,547.00	27,233.00	23,991.84

2.4. Accounting Policies

A brief description is provided below of the accounting policies and principles adopted in preparing the Consolidated Financial Statements.

Property, plant and equipment

Property, plant and equipment are recorded at purchase or production cost and stated net of accumulated depreciation and any impairment adjustments. The residual values of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period. Purchase or production cost includes costs incurred directly to prepare property, plant and equipment for use, as well as any costs to be incurred to dismantle and remove the assets in line with contractual obligations that require that the assets be returned to their original condition or location. Finance costs directly attributable to the purchase, construction or production of an asset are capitalized and depreciated over the asset's useful life.

Maintenance costs and the costs of routine and/or cyclical repairs are charged directly to the income statement as incurred. Costs incurred for the expansion, modernization or improvement of owned or leased fixed assets are capitalized if they meet the requirements for separate classification as an asset or part of an asset. Improvements to leased assets are depreciated over the life of the lease contract or over the useful life of the asset in question, if shorter. If improvements can be considered as separate assets, they are depreciated over the expected useful life of the separate asset.

Depreciation is recognized monthly on a straight-line basis, using rates that depreciate property, plant and equipment over their useful lives. In those cases where assets include distinctly identifiable elements with significantly different useful economic lives, depreciation is calculated separately for each part in accordance with the component approach.

The estimated useful lives of the various categories of property, plant and equipment are as follows:

Property, plant and equipment	Useful life (in year)
Buildings	40
Biological assets	20
Silos	30
Toasting, grinding and packaging machines	20
Equipment for green coffee	15
Catalysts, equipment control and PCs and models for the production of coffee machines	10
Office equipment	8
Bar equipment	6
Carts and trucks	6
Vehicles	5
Hardware, sales and marketing equipment and cars	4
Leasehold improvements	Lesser between useful life and term of the contract

The useful lives of property, plant and equipment are reviewed and updated at the end of each financial year, or more frequently when required.

Leased assets

Assets held under finance leases, whereby the risks and rewards of ownership are transferred to the Group, are recognized as assets at their fair value on the contract date or, if lower, at the present value of the minimum lease payments including any amounts payable in respect of end-of-lease purchase options, when it is reasonably certain that it will be exercised. The corresponding liability to the lessor is recorded as financial liabilities. Leased assets are depreciated applying the criteria and rates described above, unless the duration of the lease contract is shorter than the useful lives represented by such rates and the transfer of ownership at the end of the contract period is not reasonably certain. In such circumstances, the depreciation period is the duration of the lease contract.

Leases in which the lessor retains the significant risks and rewards of asset ownership are accounted for as operating leases. Operating lease instalments are charged to the income statement on a straight-line basis over the lease term.

Biological assets

Coffee plantations represent "biological assets" pursuant to IAS 41 - Agriculture. In particular, IAS 41 applies to biological activities and agricultural products until they are harvested. Subsequently, IAS 2 – Inventories is applicable.

Coffee plantations are measured at cost, since it is difficult to establish a reliable fair value for them, given the highly subjective nature of the variables driving the related valuation model. Cost is therefore deemed to represent the best available approximation of fair value and is depreciated over an estimated useful life of 20 years. Coffee plantations are measured at purchase or production cost, net of accumulated depreciation and any impairment adjustments. Purchase or production cost includes directly related charges incurred to prepare the coffee plantations for use, as well as any removal costs to be incurred under contracts requiring the restoration of the assets concerned to their original condition. Such assets are derecognised when sold or when no further use for them is foreseeable and no economic benefits are expected from their sale. Any gains or losses deriving from the withdrawal or retirement of coffee plantations are recognized in the income statement in the year in which such withdrawal or retirement occurs.

Investment properties

Properties held in order to generate rental income or for capital appreciation purposes are accounted for as investment properties; they are valued at their purchase or production cost, including any related transaction costs, net of accumulated depreciation and any impairment adjustments.

Intangible assets

Intangible assets consist of identifiable, non-monetary items without physical form that are controllable and expected to generate future economic benefits. Such items are initially recorded at purchase and/or production cost, including any directly related costs incurred to prepare them for use. Any interest expenses incurred during and for the development of intangible assets are deemed part of their purchase cost. The following intangible assets exist within the Group:

(a) Goodwill and trademarks with an indefinite useful life

Goodwill and certain trademarks are classified as intangible assets with an indefinite useful life. They are initially recorded at cost, as described above, and subsequently subjected to impairment testing at least annually in order to identify any loss in value (refer to Note 7 "*Intangible Assets*" for further details regarding impairment testing). Once recognized, impairment adjustments to goodwill may not be reversed.

(b) Other intangible assets with a finite useful life

Intangible assets with a finite useful life are recorded at cost, as described above, and stated net of accumulated amortization and any impairment adjustments.

Amortization commences when intangible assets become available for use and is charged on a straight-line basis over the asset's estimated residual useful economic lives.

Estimated useful economic lives for the various categories of intangible asset are as follows:

Intangible assets	Useful life (in year)
Customer lists	5-25
Trademarks with a finite useful life and patents	20-25
Concessions, licenses and similar assets	5
Software	3-5
Key money	Time reference in the contract

Impairment of intangible assets and property, plant and equipment

(a) Goodwill and trademarks with an indefinite useful life

Intangible assets with an indefinite useful life are not amortized but are subjected to impairment testing on an annual basis, or more frequently if there is evidence to suggest that their value might be impaired.

Impairment testing of goodwill is carried out with reference to each of the **Cash Generating Units** ("**CGU**") to which goodwill is allocated. Impairment is recognized if the recoverable amount of the goodwill is lower than its carrying amount. Recoverable amount is defined as the greater of the fair value of the CGU net of disposal costs and its value in use. If the write-down deriving from the impairment test is greater than the value of the goodwill allocated to the CGU, the excess amount is deducted from the assets included in the CGU, in proportion to their carrying amounts. In allocating an impairment loss, the carrying amount of an asset cannot be reduced below the highest of:

- the fair value of the asset, net of disposal cost;
- its value in use, as defined above;
- zero.

Impairment losses recognized against intangible assets with an indefinite useful life are never reversed.

(b) Property, plant and equipment and intangible assets with a finite useful life

At each reporting date, the Group assesses whether there are any indications of impairment of property, plant and equipment and intangible assets with a finite useful life. Both internal and external sources of information are considered for this purpose. Internal sources include obsolescence or physical deterioration of the asset, any significant changes in the use of the asset, and the economic performance of the asset with respect to expectations. External sources include the market value of the asset, changes in technology, markets or laws, trends in market interest rates and the cost of capital used to evaluate investments.

Where indicators of impairment are deemed to exist, the recoverable value of the relevant assets are estimated and any impairment adjustments with respect to their carrying amounts are charged to the income statement. The recoverable value of an asset is represented by the greater of its fair value, net of disposal costs, and its value in use, which is defined as the present value of the estimated future cash flows deriving from the asset. When determining value in use, the expected future cash flows are discounted using a pre-tax rate that reflects the current market assessment of the cost of money, considering the length of the investment period and the specific risks associated with the asset. The recoverable value of assets that do not generate independent cash flows is determined with reference to the CGU to which such assets belong.

Impairment is charged to the income statement when the carrying amount of an asset, or the CGU to which it has been allocated, exceeds its recoverable value. Reductions in the value of a CGU are initially deducted from the carrying amount of any goodwill allocated to it, and then from the carrying amounts of the CGU's remaining assets in proportion to their carrying amounts, to the extent of their related recoverable value. If the conditions that gave rise to an impairment adjustment cease to exist, the carrying amount of the asset concerned is reinstated, by crediting the income statement with an amount equal to the net carrying amount that the asset would have had in the absence of impairment, net of depreciation.

Trade receivables and other financial assets

Trade receivables and other financial assets arise during the Group's ordinary operations and are held to collect contractual cash flows that are solely payments of principal and interest in accordance with IFRS 9.

Therefore, these receivables are initially recorded at fair value and subsequently stated at amortised cost using the effective interest method, net of the allowance for impairment. They are classified as current assets, except in those cases where the contractual duration at the reporting date exceeds twelve months, in which case they are classified as non-current assets and recognised at their present value.

At each reporting date, trade receivables and other financial assets are tested for impairment.

When performing the test, in accordance with IFRS 9, the Group uses a financial asset impairment model whereby loss allowances are recognised based on expected losses. For impairment test purposes, the Group estimates credit losses on trade receivables over their entire life, using a simplified approach, and uses its historical credit loss experience, grouped in similar categories and adjusted to reflect specific forward-looking factors about the nature of the Group's receivables and the economic conditions.

Trade receivables are impaired when their recovery cannot be reasonably expected, as indicated, inter alia, by a creditor's inability to agree on a repayment scheme with the Group and the inability to make contract payments for a significant period of time.

When an impairment indicator exists, the impairment loss is recognised in the income statement under "Amortisation, depreciation and impairment".

Previous criteria in trade receivables impairment

Trade receivables and other financial assets are initially recorded at fair value and subsequently stated at amortized cost using the effective interest method, net of any impairment allowances. They are classified as current assets, except in those cases where the contractual duration at the reporting date exceeds twelve months, in which case they are classified as non-current assets.

Agreements for the factoring of trade receivables that do not envisage transfer to the factor of the risks and rewards associated with the receivables assigned (i.e. the Group remains exposed to the insolvency risk - assignment with recourse in IFRS terms) are treated as loans secured against the factored receivables. In this case, the factored receivables continue to be reported in the Group's statement of financial position until they have been collected by the factor, and any advances obtained from the factor are recognized as a financial liability.

Impairment losses on receivables are recognized in the financial statements when there is objective evidence that the Group will be unable to recover the amount contractually due from the counterparty.

Objective evidence includes such events as:
- significant financial difficulties of the counterparty;
- legal disputes with the debtor over the amount receivable; or
- probability that the debtor will declare bankruptcy or that other financial restructuring procedures will be initiated.

The amount of impairment is measured as the difference between the carrying amount of the asset and the present value of the related future cash flows and is recorded under “Amortization, depreciation and impairment” in the income statement. Unrecoverable receivables are derecognised from the statement of financial position and charged against the allowance for impairment. If, in later periods, the conditions that gave rise to an impairment loss cease to exist, the carrying amount of the asset concerned is reinstated to the net carrying amount that such asset would have had in the absence of impairment, using the amortized cost method.

Inventories

Inventories are recorded at the lower of purchase or production cost and their net realizable value, being the amount that the Group expects to obtain from their sale in the ordinary course of business, net of selling costs. Cost is determined on a first-in, first-out (FIFO) basis.

The cost of semi-finished and finished products includes design costs, raw materials, direct labour and other production costs (allocated based on normal capacity levels). The carrying amount of inventories does not include borrowing costs, as these costs do not meet the time requirements for capitalization and are therefore, expensed as incurred.

Inventories of raw materials and semi-finished products no longer usable in the production cycle and inventories of unsellable finished products are written-off.

Cash and cash equivalents

Cash and cash equivalents comprise cash and unrestricted bank deposits, as well as other forms of short-term investment with an original maturity of not more than three months. At the reporting date, overdrafts are recognised under current liabilities in the statement of financial position.

Non-current assets held for sale

Non-current assets whose carrying amounts will be recovered principally through sale, rather than continuous use, are classified as held for sale and reported separately from other assets in the statement of financial position. Such assets are considered to be held for sale when sale of the assets is highly probable and the business or group to be sold is available for immediate sale in its current condition.

Non-current assets held for sale are not depreciated and are measured at the lower of their carrying amount or their fair value, net of disposal costs.

Discontinued operations refer to parts of the business that have been retired or classified as held for sale. The results of discontinued operations are reported separately in the income statement, net of taxation. Where applicable, for comparative purposes, corresponding prior year amounts are reclassified for separate presentation in the income statement, net of taxation.

Costs and revenues, and finance income and costs, relating to transactions between consolidated entities that are respectively part of continuing and discontinued operations, are eliminated on the basis of expectations regarding the continuation or cessation of such transactions following transfer of the discontinued operations outside the scope of Group consolidation. Transactions that are reasonably expected to continue are deducted from the results of discontinued operations, while those that will not continue are deducted from the results of continuing operations.

Cash flows relating to the discontinued operations are shown separately in the statement of cash flows as they relate to operating activities, investing activities and financing activities.

Borrowings and other financial liabilities

Borrowings and other financial liabilities are initially recorded at fair value, net of directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. If there is a change in the estimate of expected cash flows, the value of the liabilities is remeasured to account for this change based on the present value of the new cash flows expected and the effective interest rate as initially determined. Borrowings and other financial liabilities are classified within current liabilities, except those with contractual maturities due beyond twelve months of the reporting date and those for which the Group has an unconditional right to defer payment for at least twelve months after that date.

Borrowings and other financial liabilities are recognized at the transaction date and are derecognized when settled and when the Group has transferred all the risks and costs related to the instruments.

Derivative instruments and hedging activities

Derivative instruments are securities held for trading and accounted for at fair value through profit or loss, unless designated as hedging instruments, and are classified in current and non-current assets or liabilities.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value, with related transaction costs being charged to the income statement. Gains and losses deriving from changes in the fair value of interest rate derivatives are recognized in the income statement as finance income and finance costs in the period in which they are identified.

If the maturity of the hedged item exceeds twelve months, the fair value of derivatives used as hedging instruments is classified among other non-current assets or liabilities; if such maturity is less than twelve months, the fair value of the related hedging derivatives is classified among other current assets or liabilities. Derivatives not designated as hedging instruments are classified as either current or non-current assets or liabilities, depending on their contractual maturity.

Cash flow hedges
The Group designates certain derivative instruments as *i)* hedges against exchange rate risks considered highly likely to occur, *ii)* hedges against the variability of interest rate of a specific loan and *iii)* hedges against the variability of commodities price mainly of green coffee price. The relationship between each derivative designated as a hedging instrument and the hedged item is documented, specifying the risk management objectives, the hedging strategy and the methods adopted to monitor effectiveness. The effectiveness of each hedge is monitored both upon arrangement of the related derivative and throughout its life. Generally, a cash flow hedge is deemed highly "effective" if, both at the start and throughout its life, changes in the expected cash flows associated with the hedged item are substantially offset by the changes in the fair value of the hedging instrument. Changes in the fair value of cash flow hedges subsequent to their initial recognition are accounted for within other reserves as part of net equity, to the extent that they are effective in hedging cash flows. When the economic effects of the hedged transaction are recognized, the related reserve is then released to the income statement and recorded together with the effects of the hedged transaction. If a hedge is not perfectly effective, the ineffective portion of the change in the fair value of the hedging instrument is accounted for directly in the income statement. If, during the life of a hedging instrument, the expected cash flows subject to hedging are no longer deemed to be highly likely, the cash flow hedge reserve is released to the income statement. Conversely, if the hedging instrument is sold or is no longer deemed an effective hedge, the balance of the hedging reserve up to that moment is retained within equity and is then released to the income statement at the time the hedged transaction takes place.

Net investment hedges
The Group makes use of non-derivative financial instruments (net investment hedges) to hedge against the risk of unfavourable movements in the rates of foreign exchange at which net investments in foreign assets are translated. Net investment hedges are accounted for in the same way as cash flow hedges.

Gains and losses on net investment hedges on the effective portion of the hedge are accounted for in other equity reserves, thereby offsetting the changes in the translation reserve relating to net investments in foreign operations. Gains and losses on the ineffective portion are accounted for directly in the income statement.

Cumulative gains and losses relating to the effective portion of such hedges, which are accounted for in other reserves in equity, are released to the income statement on full or partial disposal of the overseas assets.

Forward purchase and sale of green coffee
The Group analyses all forward purchases and sales of non-financial assets and, in particular, forward purchases and sales of green coffee, to assess how these should be classified and treated in accordance with IFRS 9, with the exception of contracts entered into and held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale, or usage requirements (own use exemption). In accordance with the “own use” regime, therefore, such contracts for the forward purchase and sale of green coffee, when entered into with a view to the subsequent physical delivery of green coffee as described above, do not qualify as derivative financial instruments fair valued in the financial statements under IFRS 9.

On the other hand, in the case in which such forward contracts are not entered into with a view to the subsequent physical delivery of green coffee as described above, they do qualify as derivative financial instruments. In the event that such forward contracts are qualified as effective in hedge, the fair value variations are accounted as equity in the cash flow hedge reserve .

Employee benefits

Short-term benefits comprise wages, salaries, related social security costs, payments in lieu of holiday and incentives in the form of bonuses payable within twelve months of the reporting date. These benefits are recorded as payroll costs in the period in which the work is performed.

In the case of defined benefit plans, such as that governing the termination indemnities due to employees in accordance with art. 2120 of the Italian Civil Code (“**TFR**”), the amount of the benefit is only quantifiable following termination of the employment relationship and is dependent upon factors such as age, length of service and level of remuneration; for this reason, the costs charged to the income statement for a given year are determined by actuarial calculations. The liability recognised for defined benefit plans corresponds to the present value of the obligation at the reporting date. The obligations under defined benefit plans are determined each year by an independent actuary, using the projected unit credit method. The present value of defined benefit plans is determined by discounting the future cash flows using an interest rate based on that of high-quality corporate bonds issued in Euro that takes into account the duration of the pension plan concerned. The actuarial gains and losses deriving from adjustments in the total liability and the effect of changes in the actuarial assumptions are recognized in other comprehensive income.

With effect from January 1, 2007, Italian Law 2007 and the related decrees regarding implementation of the law, introduced significant changes to the TFR regulations, including the option for each employee to choose the destination of the accruing indemnity. In particular, employees may now allocate new TFR flows to alternative external pension plans or elect for them to be retained by the employer. If an external pension plan is chosen, an entity is only obliged to make defined contributions to such plan, and accordingly, from the aforementioned date the related new TFR flows are deemed to be payments to a defined contribution plan not subject to actuarial valuation.

In addition to the above, some US subsidiaries have multi-employer plans that are based on, and funded by, many participating entities. Each participating entity makes contributions based on certain parameters and such contributions are used to provide benefits to their employees. In the case in which a participating entity decides to leave the plan, it remains obliged to continue to make contributions in relation to benefits already earned. Accordingly, if it is probable that an entity will leave such a plan, it may be required to recognise a liability for the contributions to be paid in relation to benefits already earned.

The Group classifies its multi-employer pension plans as defined benefit plans. However, since the information available is not sufficient to account for them as defined benefit plans, the Group recognises such plans as if they were defined contribution plans. The liability that would arise on leaving such plans is not recognised, as the likelihood of such event is considered remote at the reporting date.

Provisions

Provisions are recognised to provide for known or likely losses or liabilities, the timing and/or amount of which cannot be determined. Provisions are only recorded when there exists a present obligation, whether legal or constructive, for a future outflow of resources relating to past events, and when it is probable that such outflow will be required to settle the obligation. Provisions represent the best estimate of the expenditure required to settle the related obligation. The rate used to calculate the present value of the liability reflects market values and takes into account the specific risk associated with each liability.

In the case in which the effect of the time value of money is material and the settlement dates for the obligations can be reliably estimated, provisions are recorded at the present value of the expected future payments by applying a discount rate that reflects market conditions, the change in the time value of money, and the specific risks associated with the obligation. Provision increases due to changes in the time value of money are recognised as interest expense.

Obligations considered to be possible but not probable are disclosed in the note on contingent liabilities, however, no provision is made.

Trade payables and other liabilities

Trade payables and other liabilities are initially recorded at fair value, net of directly related charges, and subsequently measured at amortized cost using the effective interest method.

Revenue recognition

The Group's revenue mainly arises from the sale of roasted coffee and coffee machines and the sale of colonial products such as tea, spices, cocoa, and other food products. It also includes revenue from the international network of cafés and the sale of goods and services that are related to its core business (such as green coffee).

Under IFRS 15, the Group recognises revenue based on contracts with customers. Specifically, contracts with customers are identified when: i) they are binding contracts between the Group and the customer, ii) each party's rights and obligations can be identified, iii) the contract has commercial substance and iv) it is probable that the consideration will be collected. Consideration is usually paid after transferring control over the related goods to customers in accordance with commercial terms that are consistent with those of the relevant sector and the countries in which the Group operates.

Revenue is recognised based on the Group's satisfaction of the so-called performance obligations as contractually agreed with the customer. The Group's contracts usually cover the sale of goods and services which can be identified separately. Consequently, they are recognised as distinct performance obligations.

Revenue is generally recognised when control over a product is passed to the customer. Indeed, revenue is mainly recognised upon transfer of control to the customer (point in time).

Revenue is measured at the transaction price, which is calculated based on the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding discounts and any taxes paid by customers to the tax authorities. The transaction price includes elements of variable consideration when it is probable that a significant revenue reversal will not take place after recognition.

The consideration paid to customers as incentive is recognised as a decrease in revenue upon sale. Consideration paid in advance to customers in order to win the contracts (generally with an exclusive relationship and the future purchase of minimum quantities of coffee) is recognised under the asset captions “Non-current assets for contracts with customers” and/or “Current assets for contracts with customers” over the contract term. These assets, whose recoverability is tested for the purposes of financial statements preparation, are depreciated based on sales to customers and recognised against revenue.

Where consideration is paid in advance by customers, prior to the satisfaction of the performance obligations, the amount is recognised under the liability captions “Non-current liabilities for contracts with customers” and “Current liabilities for contracts with customers”. It is subsequently recognised as revenue when control over the goods is passed to customers.

Cost recognition

Costs are recognised when they relate to goods or services acquired or consumed during the year, or when allocated to the year on a systematic basis.

Taxation

Current taxes are provided for based on an estimate of taxable income, consistent with the tax regulations applicable to Group entities in their respective countries.

The Group’s Italian entities are members of a domestic tax group established pursuant to Decree 344/2003. This law recognises the combined taxable income of the Group entities that elected, on an optional basis, to join the tax group. In particular, the rules allow the tax group to net the tax results of the member entities (taxable income and losses for the consolidation period) for IRES purposes.

Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax base of an asset or liability and the related carrying amount, except for goodwill and the differences deriving from investments in subsidiaries when the Group has control over their reversal and it is likely that they will not reverse in the foreseeable future. Deferred tax assets, including those deriving from tax loss carry-forwards, are recognised, to the extent not offset by deferred tax liabilities, if it is probable that they will be recovered against future taxable income. Deferred tax assets and liabilities are determined using the tax rates, enacted or substantially enacted at the reporting date, expected to apply in the years in which the related temporary differences reverse or expire.

Current income taxes and the changes in deferred tax assets and liabilities are recognised as “Income tax expense” in the income statement, except for those taxes relating to items (other than profit for the year) included in the statement of comprehensive income and those relating to amounts credited or charged directly to equity. In such cases, deferred taxes are recognised in the statement of comprehensive income and directly in equity. Deferred tax assets and liabilities are netted when they are applied by the same tax authorities, there is a legal right of offset and the net balance is likely to be settled.

Other taxes not linked to income, such as indirect taxes and other levies, are charged to the "Other operating costs" in the income statement.

Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the result for the year attributable to the Group, (separately disclosing continuing and discontinued operations), by the weighted average number of ordinary shares outstanding during the year, excluding own treasury shares held.

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the result for the year attributable to the Group, (separately disclosing continuing and discontinued operations), by the weighted average number of ordinary shares outstanding during the year, excluding own treasury shares held. For the purposes of the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming that rights having potential dilutive effects are fully exercised, and the result attributable to the Group is adjusted to take into account the effect of the exercise of those rights, net of tax.

Financial Reporting in Hyperinflationary Economies

In the case, one country where a company of the Group is based, was identified on the basis of international financial reporting standards (IFRS) as and hyperinflationary economy, the principle IAS 29 "*Financial Reporting in Hyperinflationary Economies*" was applied. The management has verified that the application of this financial standards does not imply significant impact on the financial statement as December 31, 2018.

2.5. Impacts from new accounting standards

IFRS 15

Under IFRS 15, an entity shall account for consideration payable to a customer as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service received from the customer and measured at fair value. Therefore, as of January 1, 2018, the Group has reclassified this type of consideration from "purchases of services, leases and rentals" to a decrease in "revenue". The application of IFRS 15 have implied in 2018 a reclassification from "Purchase of services, leases and rentals" to "Revenues" of Euro 4.624 thousand

The table below shows the effect of the application of IFRS 15 on December 31, 2018 revenues by distribution channel:

	For the year ended December 31, 2018		
(in thousands of Euro)	**Reported Figures**	**Reclassification**	**Restated Figures**
Foodservice	208,784	(188)	208,596
Mass Market	327,362	4,617	331,979
Private Label	294,875	195	295,070
Other	60,182		60,182
Total	**891,203**	**4,624**	**895,827**

The following table shows the effect of the application of IFRS 15 on December 31, 2018 revenues by geographic area:

	For the year ended December 31, 2018		
(in thousands of Euro)	**Reported Figures**	**Reclassification**	**Restated Figures**
Americas	396,794		396,794
Northen Europe	180,564	(1,168)	179,396
Southern Europe	234,950	5,792	240,742
Asia-Pacific and Cafés	78,895		78,895
Total	**891,203**	**4,624**	**895,827**

Under IFRS 15, contract assets and liabilities shall be presented separately in the statement of financial position. Therefore the Group has reclassified some contract assets and liabilities (e.g., the discounts granted to the Foodservice channel customers and advances from customers) which are currently included in "other current assets", "other non-current assets" and "other current liabilities" and "other non-current liabilities". For these assets and liabilities it has been given separate evidence of those related to "contracts" with customers, as shown in the following table.

(in thousands of Euro)	For the year ended December 31, 2018		
	Reported Figures	**IFRS 15**	**Data without the impact of IFRS 15**
Asset			
Current and non current contract assets	10.540	(10.540)	-
Other current and non current assets	22.146	10.540	32.686
Liabilities			
Current and non-current contract liabilities	1.429	(1.429)	-
Other current and non-current liabilities	32.555	1.429	33.984

IFRS 9

Under the new impairment model applicable to financial assets, the accruals to the allowance for impairment are based on expected losses rather than on the losses already incurred as set out in IAS 39.

The Group has applied the simplified approach envisaged by IFRS9 in order to asses the recoverability of its own trade receivables. The adjustment to the estimates done before, as shown in the following table with values as at January 1, 2018, takes into account the default risk in trade receivables, through a differentiated "expected default rate" which is applied to classes of trade receivables omogeneous in terms of risk profile and maturity or, for those in arrears, in terms of the actions taken to recover the credit. Please see also Note 3 "Management of Financial Risks".

As mentioned above, when reporting the impact from the first adoption of IFRS 9, the Group has used the "*modified retrospective method*". According to this method, the cumulated effects related to the implementation of the new standard are recorded in the "Retained Earnings" as at January 1, 2018, without presenting the comparative amounts, as shown in the following table:

(in thousands of Euro)	**As of December 31**	**IFRS 9 effect**	**As of January First**
	2017		**2018**
Asset			
Current and non current trade receivables	126,481	(3,791)	122,690
Deferred tax assets and liabilities	10,244	821	11,065
Liabilities			
Retained earnings	166,443	(2,953)	163,490
Equity attributable to non-controlling interests	1,977	(17)	1,960

2.6. Recently-Issued Accounting Standards

The following accounting standards, amendments and interpretations have been adopted by the Group with effect from January 1, 2018:

- *IFRS 15* - On May 24, 2014, the IASB published IFRS 15, which governs the recognition of revenue from contracts with customers. The new standard replaces IAS 18 "Revenue", IAS 11 "Construction contracts" and the related interpretations. Specifically, under IFRS 15, revenue is recognised based on the following five-step model framework:

  1) identify the contract(s) with a customer;
  2) identify the performance obligations in the contract to transfer goods and/or services to a customer;
  3) determine the transaction price;
  4) allocate the transaction price to the performance obligations in the contract by reference to the standalone selling price of each good or service; and
  5) recognise revenue when (or as) the entity satisfies a performance obligation.

  Furthermore, IFRS 15 requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and related cash flows.

  IFRS 15, which was endorsed by the European Commission with Regulation (EU) no. 2016/1905 of September 22, 2016, is effective for annual periods beginning on or after January 1, 2018. The Group adopted this standard and the related amendments using the modified retrospective approach, taking any cumulative effects at January 1, 2018 to "Retained earnings" and without restating comparative balances.

  Management considered the effects of the application of the new standard on the Group's financial statements with respect to all types of revenue and concluded that there were no substantial and/or significant impacts on the accounting policy governing revenue recognition. Consequently, revenue recognition under IFRS 15 did not result in the recognition of a cumulative effect at January 1, 2018. However, it led to some reclassifications in the income statement and the statement of financial position, as described in detail in note *2.5 "Impacts arising from the application of new standards"*.

- *IFRS 9* - On July 24, 2014, the IASB completed the revision of the standard governing financial instruments with the publication of the final version of IFRS 9 - "Financial Instruments" ("IFRS 9"). The new provisions set out in IFRS 9:

  - change the classification and measurement requirements for financial assets;
  - incorporate a new expected loss impairment model which considers expected credit losses; and
  - change hedge accounting provisions.

  The new standard also requires additional disclosure and presentation changes.

  IFRS 9, which was endorsed by the European Commission with Regulation (EU) no. 2016/2067 of November 22, 2016, is effective for annual periods beginning on or after January 1, 2018.

  The Group has adopted IFRS 9 from January 1, 2018 and applied the practical expedients provided for by the standard without restating comparative balances.

  The Group analysed its financial assets and liabilities and essentially concluded the following with respect to the impact of the adoption of the new standard from January 1, 2018:

- the classification and measurement model of the Group's financial assets and liabilities has not been impacted by the application of IFRS 9;

- under the new financial asset impairment model, loss allowances are to be recognised based on expected losses rather than on the basis of incurred losses, as required by IAS 39. Based on the analyses carried out, the Group adjusted the loss allowance for trade receivables, as described in detail in note *2.5 "Impacts arising from the application of new standards"*;

- the hedging relationships in place under the Group's hedge accounting policy continue to qualify as such under IFRS 9.

- *Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions".* This amendment, which was published by the IASB on June 20, 2016, clarifies the accounting for cash-settled share-based payment transactions and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Furthermore, this document introduces an exception to IFRS 2 so that a share-based payment is classified as equity-settled in its entirety when the employer is required to withhold an amount for an employee's tax obligation to be paid to the tax authorities.
The requirements introduced by the coming into force of this standard will not have any financial impact on the Group.

- *IFRIC 22 "Foreign currency transactions and advance consideration".* This interpretation, which was published by the IASB on December 8, 2016, clarifies the accounting for foreign currency transactions or parts of transactions whose consideration is expressed in a foreign currency. It provides guidance for transactions involving one single payment/receipt as well as for those comprising more payments/receipts. The aim of the interpretation is to reduce the use of inconsistent methods.
The requirements introduced by the coming into force of this standard will not have any financial impact on the Group.

- *Annual Improvements to IFRSs: 2014-2016 Cycle* They are part of the annual improvement process and will be applicable for annual periods beginning on or after January 1, 2018. The process covered: i) IFRS 1, ii) IFRS 12 and IAS 28. The amendments included clarifications, corrections or the removal of sentences which were no longer relevant. The requirements introduced by the coming into force of these amendments will not have any financial impact on the Group.

- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* - which introduce some guidance about insurance contracts falling under the scope of IFRS 4 in connection with the introduction of IFRS 9. The requirements introduced by the coming into force of this standard will not have any financial impact on the Group.

- *Amendments to IAS 40 "Transfers of Investment Property".* These amendments, which were published by the IASB on December 8, 2016, clarify that the transfers into, or out of, investment property should only be made when there is evidence of a change in use. Therefore, a change of use occurs if the property meets, or ceases to meet, the definition of investment property. The requirements introduced by the coming into force of this standard will not have any financial impact on the Group.

Accounting standards, amendments and interpretations endorsed by the European Union that are not yet effective and have not been early adopted by the Group

The Group did not apply the following standards which were issued and endorsed, but are not yet in force.

- IFRS 16 “Leases”. On January 13, 2016, the IASB published IFRS 16 “Leases” (“IFRS 16”) which replaces IAS 17 “Leases” and the related interpretations. IFRS 16 was endorsed by the European Union on October 31, 2017. It eliminates the difference between operating and finance leases for the purposes of the preparation of lessees’ financial statements. For all leases with a term of more than 12 months, except for those related to assets with a low unit value, an entity shall recognise an asset and a liability, representing the right to use the underlying asset and the obligation to make contract payments, respectively. Conversely, for the purposes of lessors’ financial statements preparation, the difference between operating and finance leases is maintained. IFRS 16 strengthens disclosures for both lessors and lessees.

  The Group will apply IFRS 16 as of January 1, 2019 using the simplified approach, which does not require the restatement and recalculation of the accounting balances prior to the application of the standard. Specifically, the right-of-use asset is equal to the carrying amount of the related liability at the date of first-time application (1 January), adjusted to reflect the prepayments and accrued expenses related to back- and front-loaded lease payments recognised on said date. The Group will apply the exemptions provided for by the standard with respect to leases with a term of less than 12 months, including contracts whose residual term at the action date is below 12 months, and related to assets of a low unit value.

  Lease liabilities will be measured at the present value of the residual lease payments at the date of the first-time application of the standard, which are fixed and remain substantially fixed over the lease term. The lease term includes all non-cancellable periods for which the Group has the right to use an underlying asset and the periods covered by an extension option if exercise of that option by the Group is reasonably certain. Lease liabilities do not include significant non-lease components.

  The discount rate used to measure the carrying amount of lease liabilities takes into account the country and currency risks, the lease term and the Group's credit risk.

  At the reporting date, the Group has non-cancellable operating leases mainly related to plantations, buildings, vehicles and plant, machinery and industrial equipment worth Euro 50 million (as described in note 31 – Commitments). In this respect, it estimated the recognition of a right-of-use asset (adjusted to reflect prepayments and accrued expenses related to lease payments recognised at such date) of Euro 34 million, in addition to receivables for sub-leases classified as finance leases of Euro 10 million, against liabilities of Euro 44 million.

  The Group does not expect any significant impact from the application of the new standard in terms of profit for the year and cash flows from operating activities. Furthermore, it does not expect any significant impact on the consolidated financial statements in terms of: i) contracts in which the Group acts as the lessee, which were previously recognised as finance leases and ii) contracts in which it acts as the lessor.

  The above estimates may be subject to changes during the preparation of the financial information required in 2019 upon completion of the checks currently under way on application models and information systems.

Accounting standards, amendments and interpretations not endorsed by the European Union

The following standards and amendments have been issued by the IASB but at the date of these financial statements had not been adopted by the European Union.

- *IFRIC 23 "Uncertainty over Income Tax Treatments".* On June 7, 2017, the IASB published IFRIC 23 "*Uncertainty over Income Tax Treatments*", which provides guidance about the recognition of current and/or deferred tax assets and liabilities related to income taxes, when there is uncertainty over income tax treatments under the applicable tax legislation. IFRIC 23 provisions are effective for annual periods beginning on or after January 1, 2019.

- *Amendments to IFRS 9 "Prepayment Features with Negative Compensation".* On October 12, 2017, the IASB published an amendment to IFRS 9, governing the accounting treatment of "Prepayment Features with Negative Compensation".
  Furthermore, the IASB clarified some aspects about the recognition of the change to financial liabilities which were not derecognised. The amendment to IFRS 9 is effective for annual periods beginning on or after January 1, 2019.

- *Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures".* On October 12, 2017, the IASB published this amendment to IAS 28 to clarify the application of IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture to which the equity method is not applied. The amendment to IAS 28 is effective for annual periods beginning on or after January 1, 2019.

- *IFRS 17 "Insurance Contracts".* On May 18, 2017, the IASB published IFRS 17 "Insurance contracts" which governs the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

- *Annual improvements to IFRSs: 2015-2017 Cycle*, published by the IASB on December 12, 2017, modify the following standards:
  - (i) *IFRS 3 Business Combinations*: when obtaining control of a company which was previously recognised as a joint venture;
  - (ii) *IFRS 11 Joint Arrangements*: when obtaining control of a company which was previously recognised as a joint arrangement;
  - (iii) *IAS 12 Income Taxes:* with respect to the income tax consequences of dividends;
  - (iv) *IAS 23 Borrowing Costs*: with respect to the treatment of borrowings when the related asset is ready for its intended use or sale.

  These amendments are effective for annual periods beginning on or after January 1, 2019.

- *Amendments to IAS 19 – "Employee Benefits",* published by the IASB on February 7, 2018. The document *"Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)"* clarifies some accounting aspects related to amendments, curtailments or settlements of a defined benefit plan.
  The amendments apply to plan amendments, curtailments or settlements that will take place after January 1, 2019.

- *Amendments to IFRS 3 – "Business Combinations",* published by the IASB in October 2018, to improve the definition of "business" and provide additional operating guidance for financial statements preparation. The amendments assist companies in determining the target of an acquisition, by distinguishing between a business or a group of assets. These amendments are effective for annual periods beginning on or after January 1, 2020.

- *"Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors"*, published by the IASB in October 2018, to clarify the definition of "materiality" and the application of the concept of "materiality" included in the reporting standards. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS. These amendments are effective for annual periods beginning on or after January 1, 2020.

- *Review of the "Conceptual Framework for Financial Reporting".* In March 2018, the IASB published the revised version of the *Conceptual Framework for Financial Reporting*, which is immediately applicable for both the IASB and the IFRIC when publishing new standards and interpretations and for first-time adopters for annual periods beginning on or after January 1, 2020.

The Group will adopt these new standards and amendments, with due regard to the application dates envisaged, and will assess their potential effects on the Consolidated Financial Statements, when they have been endorsed by the European Union.

2.7. Significant Non-Recurring Events and Transactions

In accordance with Consob Communication dated July 28, 2006, it is noted that the Group's financial performance for 2018 was affected by non recurrent costs due to serial reorganisation acitivites took part in order to increase the efficiency of its business activities. These costs, amounted to Euro 2,494 thousand and are mainly refferd to *i)* cost for services (Euro 1,194 thousand) *ii)* personnel costs (Euro 670 thousand) *iii)* other operating costs (Euro 630).

The Group's financial performance for 2017 was affected by the acquisition of Nutricafès (September 2016).

The Group's performance for 2017 was also affected by non-recurring charges related to the merger and reorganisation processes launched by Segafredo Zanetti S.p.A, in Massimo Zanetti Beverage Iberia S.A. and Segafredo Zanetti Danmark Aps. These charges, which total Euro 6,292 thousand, refer to *i)* costs for services of Euro 3,050 thousand *ii)* personnel costs of Euro 2,978 thousand and *iii)* other operating costs of Euro 265.

3 Management of Financial Risks

The activities of the Group are exposed to the following risks: market risk (including in particular, interest rate risk, foreign exchange rate risk and price risk), credit risk, liquidity risk and capital risk.

The Group's risk management strategy focuses on minimizing potential adverse effects on the Group's financial performance. Certain types of risk are mitigated by using derivative instruments. Risk management is centralised with Group management who identifies, assesses and hedges financial risks in close cooperation with the Group's operating units. Group management provides instructions for monitoring the management of risks, as well as instructions for specific areas concerning interest rate risk, exchange rate risk and the use of derivative and non-derivative instruments.

Market risk

The Group is exposed to market risks associated with interest rates, exchange rates and green coffee prices.

Interest rate risk

Interest rate swaps are entered into to reduce the exposure to changes in interest rates for long-term borrowings. Interest rate swaps provide for the periodic swap of floating rate interest into fixed rates, both calculated using the same notional principal. From an operational viewpoint, the instruments used by the Group are deemed of a hedging nature.

The notional value of the interest rate swaps outstanding at December 31, 2018 totalled Euro 96,290 thousand (Euro 90,833 thousand at December 31, 2017). The interest rate swaps outstanding at December 31, 2018 had a negative fair value of Euro 1,426 thousand (negative fair value of Euro 1,293 thousand at December 31, 2017).

The risk of floating-rate borrowings not hedged through interest rate swaps represents a key exposure, given the potential impact on the income statement and cash flows of a rise in market interest rates.

The Group's long-term borrowings mainly bore floating rates of interest at December 31, 2018 and 2017. Where necessary, interest rate swaps are entered into to turn it to fixed interest rates. In the first half 2018, management decided to exploit the positive conditions of the interest rate market and, consequently, entered into the above contracts. Consequently, the exposure to interest rate fluctuations, subject to constant monitoring by management, fell from 55% to 51% at December 31, 2017 and 2018, respectively.

An increase/decrease of 1% (100 basis points) in floating interest rates, compared to those applicable at December 31, 2018 and 2017, with all other variables (including hedging derivatives in place) remaining unchanged, would have resulted in a decrease/increase respectively in profit before taxation for the year of Euro 1,125 thousand in 2018 and Euro 1,257 thousand in 2017.

Exchange rate risk

In order to reduce the exchange rate risk deriving from foreign currency denominated assets, liabilities and cash flows, the Group enters into forward contracts to hedge future cash flows denominated in currencies other than Euro. In particular, the Group fixes the exchange rates of the functional currencies of Group entities against the US dollar, as purchases and sales of the Group’s principal raw material, green coffee, are generally made in US dollars. Group policy is to hedge, whenever possible, expected cash flows in US dollars deriving from known or highly probable contractual commitments.

The instruments adopted by the Group satisfy the criteria necessary to be recognized in accordance with hedge accounting rules.

The notional value of forward contracts outstanding at December 31, 2018 was Euro 31,852 thousand (Euro 75,548 thousand at December 31, 2017). Forward contracts outstanding at December 31, 2018 had a positive fair value of Euro 1,150 thousand (negative fair value of Euro 2,381 thousand at December 31, 2017).

In order to reduce the exchange rate risk deriving from unfavourable movements in foreign exchange rates (in particular USD to Euro) at which net investments in overseas assets are translated, the Group makes use of non-derivative financial instruments (long-term loans denominated in USD).

Net investment hedges are accounted for in the same way as cash flow hedges.

Price risk of green coffee

In the ordinary course of business, the Group is exposed to the risk of fluctuations in the price of green coffee, its principal raw material. The Group reduces risks deriving from fluctuations in the price of green coffee by entering into forward contracts for the purchase of green coffee that fix the price of expected future purchases. The maturity of such contracts is generally four to six months. For further details, please refer to Note 32 - *Related Party Transactions*.

For accounting purposes, changes in the fair value of such contracts:

- are not accounted for when the "own use exemption" conditions apply (as explained above under *Forward purchase and sale of green coffee)*; or

- are accounted for in the income statement, when the "own use exemption" conditions do not apply (as such forwards are not linked to subsequent physical delivery but rather are net settlement mechanisms) when they are qualified as hedge contracts;

- are accounted for in the income statement, when the "own use exemption" conditions do not apply (as such forwards are not linked to subsequent physical delivery but rather are net settlement mechanisms) as they do not qualify as hedge contracts.

The Group's contractual obligations for which the own use exemption conditions applied amounted to Euro 190,992 thousand at December 31, 2018 (Euro 211,639 thousand at December 31, 2017).

Credit risk

Credit risk relates almost exclusively to trade receivables. The credit risk on open financial positions on derivative transactions is considered marginal, as the counterparties are leading financial institutions. With regard to the credit risk relating to the management of cash and financial resources, Group entities implement procedures to ensure they maintain relationships with independent counterparties of good standing.

In order to mitigate the credit risk associated with its customers, the Group has implemented procedures to ensure that sales of products are made only to customers that are deemed reliable, based on both past experience and available information. In addition, Group management constantly reviews its credit exposure and monitors the collection of receivables on the contractually agreed due dates.

The following table sets forth a breakdown of trade receivables by channel at December 31, 2018 and 2017:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Mass Market	63,864	66,602
Foodservice	46,443	49,686
Others	13,068	10,193
Total	**123,374**	**126,481**
of which		
Trade receivables	*120,832*	*123,405*
Non-current advances and trade receivables	*2,542*	*3,076*

Mass Market: Trade receivables due from leading domestic and international wholesalers and chain retailers. Trade receivables from *Mass Market* customers also include trade receivables from *Private Label* customers.

Foodservice: Trade receivables from a range of hotels, restaurants and bars. Trade receivables from *Foodservice* customers also include trade receivables from *Private Label* customers.

Others: Trade receivables due from other customers.

With respect to trade receivables, customers in the *Foodservice* channel are those which represent the highest credit risk. Therefore, payment periods and collections relating to these receivables are closely monitored. The amount of trade receivables considered to be impaired is not significant and is covered by appropriate provisions for impairment. Please refer to Note 11 "*Current and Non-Current Trade Receivables*" and Note 2.5 "*Impact from new accounting standards*" for further information about the allowance for impairment.

The following table sets forth an ageing analysis of current and non-current trade receivables at December 31, 2018 and 2017, net of the provision for impairment:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Not due	95,973	93,137
Past due 0-90 days	17,860	22,027
Past due 91-180 days	2,816	2,665
Past due over 180 days	6,725	8,652
Total	**123,374**	**126,481**

The Group has applied the simplified approach envisaged by IFRS9 in order to asses the recoverability of its own trade receivables. The adjustment to the estimates done before, as shown in the following table with values as at January 1, 2018, takes into account the default risk in trade receivables, through a differentiated " expected default rate" which is applied to classes of trade receivables omogeneous in terms of risk profile and maturity or, for those in arrears, in terms of the actions taken to recover the credit.

On the basis of what staten above the impairment of trade receivable at December 31, 2018 and 2017 was determined as follow:

As at December 31, 2018 *(in thousands of Euro and percentages)*	**Not due**	**Past due 1-90 days**	**Past due 91-180 days**	**Past due over 180 days**	**Total**
Expected default rate(*)	1%	3%	23%	74%	15%
Current and non current trade receivables	96,695	18,445	3,663	25,817	144,620
Allowance for impairment of trade receivables	722	595	846	19,091	21,254

(*) Direct ratio between allowance for impairment of trade receivables and current and non current trade receivables. The percentage in the above chart represents the weighted average of the clusters identified by the group.

As at January 1, 2018 *(in thousands of Euro and percentages)*	**Not due**	**Past due 1-90 days**	**Past due 91-180 days**	**Past due over 180 days**	**Total**
Expected default rate(*)	1%	3%	20%	79%	17%
Current and non current trade receivables	93,281	22,453	3,637	27,852	147,224
Allowance for impairment of trade receivables	1,118	694	720	22,002	24,534

(*) Direct ratio between allowance for impairment of trade receivables and current and non current trade receivables. The percentage in the above chart represents the weighted average of the clusters identified by the group.

Please refer to Note 11 "*Current and non Current trade receivables*" for further details on the allowance for impairment of trade receivables

Liquidity risk

Liquidity risk relates to the Group's capacity to meet its obligations and commitments deriving principally from financial liabilities. The Group's management of liquidity risk in the ordinary course of business involves maintaining a sufficient level of cash and ensuring the availability of funds through adequate lines of credit.

At December 31, 2018, the Group had credit lines totalling Euro 236,783 thousand (Euro 224,591 thousand at December 31, 2017), arranged with various banks to cover overdraft requirements.

The undrawn portion of such credit lines at December 31, 2018 totalled Euro 189,732 thousand (Euro 171,577 thousand at December 31, 2017).

Additionally, it is noted that:

- various sources of finance are available from different banks;
- there is not a significant concentration of liquidity risk in terms of financial assets or sources of financing.

The following tables set forth the expected future cash flows related to financial liabilities outstanding at December 31, 2018 and 2017:

As at December 31, 2018 *(in thousands of Euro)*	**Carrying amount**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	271,937	99,563	176,434	4,281
Derivatives on interest rates	1,426	307	1,119	-
Derivatives on exchange rates	-	-	-	-
Derivatives on commodities	1,590	1,564	26	-
Trade payables and other liabilities	146,292	145,122	1,170	-
Total	**421,245**	**246,556**	**178,749**	**4,281**

As at December 31, 2017 *(in thousands of Euro)*	**Carrying amount**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	282,876	82,374	208,248	2,035
Derivatives on interest rates	1,293	178	1,115	-
Derivatives on exchange rates	2,381	2,233	148	
Trade payables and other liabilities	141,329	140,159	1,170	-
Total	**427,879**	**224,944**	**210,681**	**2,035**

Capital risk

The Group's main objective in managing capital risk is to ensure business continuity in order to guarantee returns for shareholders and benefits for other stakeholders. The Group also seeks to maintain an optimal capital structure in order to reduce the cost of borrowing.

Financial assets and liabilities by category

The fair value of trade receivables and other financial assets, trade payables, other payables and other financial liabilities classified as "current" in the statement of financial position and measured at amortized cost is the same as the related carrying amounts in the Consolidated Financial Statements at December 31, 2018 and 2017, as they primarily relate to balances generated by normal business that will be settled in the short term.

The following tables set forth an analysis of the Group's financial assets and liabilities by category at December 31, 2018 and 2017:

As at December 31, 2018 *(in thousands of Euro)*	**Financial instruments at amortized cost**	**Financial instruments at fair value**	**Hedging derivatives at fair value**	**Total financial assets / liabilities**	**Total non - financial assets / liabilities**	**Total**
Assets						
Current trade receivables and non-current trade receivables and advances	123,374	-	-	**123,374**	-	**123,374**
Current and non-current contract assets	12,598	-	1,150	**13,748**	8,398	**22,146**
Cash and cash equivalents	93,491	-	-	**93,491**	-	**93,491**
Total assets	**229,463**	**-**	**1,150**	**230,613**	**8,398**	**239,011**
Liabilities						
Current and non-current borrowings	271,937	-	-	**271,937**	-	**271,937**
Trade payables	144,292	-	-	**144,292**	-	**144,292**
Other Current and Non-Current Liabilities	2,000	1,426	1,590	**5,016**	27,539	**32,555**
Total liabilities	**418,229**	**1,426**	**1,590**	**421,245**	**27,539**	**448,784**

As at December 31, 2017 *(in thousands of Euro)*	**Financial instruments at amortized cost**	**Financial instruments at fair value**	**Hedging derivatives at fair value**	**Total financial assets / liabilities**	**Total non - financial assets / liabilities**	**Total**
Assets						
Current trade receivables and non-current trade receivables and advances	126,481	-	-	**126,481**	-	**126,481**
Other current and non-current assets	22,096	-	-	**22,096**	9,768	**31,864**
Cash and cash equivalents	89,594	-	-	**89,594**	-	**89,594**
Total assets	**238,171**	**-**	**-**	**238,171**	**9,768**	**247,939**
Liabilities						
Current and non-current borrowings	282,876	-	-	**282,876**	-	**282,876**
Trade payables	139,329	-	-	**139,329**	-	**139,329**
Other Current and Non-Current Liabilities	2,000	1,293	2,381	**5,674**	33,657	**39,331**
Total liabilities	**424,205**	**1,293**	**2,381**	**427,879**	**33,657**	**461,536**

Fair value

The fair value of financial instruments listed in an active market is based on their market prices at the reporting date. The fair value of financial instruments not listed in an active market is determined using measurement techniques based on a series of methods and assumptions linked to market conditions at the reporting date.

The following table shows the fair value hierarchy of financial instruments:

Level 1: Fair value is determined with reference to the (unadjusted) listed prices in active markets of identical financial instruments.

Level 2: Fair value is determined using measurement techniques based on inputs observable in active markets.

Level 3: Fair value is determined using measurement techniques based on inputs that are not observable.

As at December 31, 2018 *(in thousands of Euro)*	**Livello 1**	**Livello 2**	**Livello 3**	**Totale**
Assets				
Current derivatives on exchange rates		1,150	-	1,150
Total	**-**	**1,150**	**-**	**1,150**
Liabilities				
Current derivatives on commodities		1,590	-	1,590
Current derivatives on interest rates		1,426	-	1,426
Total	**-**	**3,016**	**-**	**3,016**

As at December 31, 2017 *(in thousands of Euro)*	**Livello 1**	**Livello 2**	**Livello 3**	**Totale**
Liabilities				
Current derivatives on exchange rates	-	2,381	-	2,381
Current derivatives on interest rates	-	1,293	-	1,293
Total	**-**	**3,674**	**-**	**3,674**

The fair value of derivatives at December 31, 2018 and 2017 is measured in accordance with Level 2.

Financial instruments with a Level 2 fair value include derivatives that qualify for hedge accounting and other derivatives hedging the economic risks. Derivatives include forward foreign exchange contracts and interest rate swaps.

The fair value of forward-exchange contracts is determined using forward exchange rates quoted on active markets. The fair value of interest rate swaps is determined using a forward curve of interest rates based on market yield curves.

There were no changes in measurement techniques during the years ended December 31, 2018 and 2017. Similarly, there were no changes in the valuation techniques used. Decisions to classify financial instruments in terms of Level 2 or Level 3 are taken at each balance sheet date for financial reporting purposes.

4 Use of Estimates and Assumptions

The preparation of financial statements requires that management apply accounting standards and methods, which in certain cases depend on subjective measurements and estimates based on past experience as well as assumptions which, on a case-by-case basis, are considered reasonable and realistic in the specific circumstances. The use of such estimates and assumptions influences the amounts reported in the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the explanatory notes. Actual results for such items may differ from the amounts reported in the financial statements due to the uncertainties that characterise the assumptions and conditions on which such estimates were made.

The following paragraphs provide brief descriptions of those areas, which, more than others, require subjective judgement on the part of management when making estimates, and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial information reported.

(a) ***Impairment of assets***

Goodwill and trademarks with an indefinite useful life

Intangible assets include goodwill and other intangible assets with an indefinite useful life. Management periodically tests goodwill and trademarks for impairment with an indefinite useful life when required by facts and circumstances. The impairment test is carried out by comparing the carrying amount against the recoverable amount of each CGU. The recoverable amount of a CGU is defined as the greater of the fair value net of disposal costs and its value in use. When determining value in use, the expected future cash flows are discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the specific risks associated with the CGU. The recoverability of the carrying value of intangible assets is reviewed at least once per year for those CGUs to which goodwill or trademarks with an indefinite useful life have been allocated. In carrying out impairment tests, management uses its best estimates and assumptions regarding development of the business and market trends, however, these are subject to a high degree of uncertainty in view of the ongoing difficult economic circumstances in many countries. In particular, given the high degree of uncertainty, a worsening of the economic climate beyond that foreseen by management could lead to results below expectations, resulting in a need to write-down the carrying value of related non-current assets.

Intangible assets and property, plant and equipment with a finite useful life

In accordance with the relevant accounting standards, intangible assets and property, plant and equipment with a finite useful life are tested for impairment, and then written down as appropriate whenever indicators suggest that their net carrying amount may be higher than their recoverable amount. The identification of such indicators requires that management exercises subjective judgement based on information available within the Group and from the market as well as on historical experience. In addition, when potential impairment is identified, management determines the extent of such impairment by applying suitable measurement techniques. Identification of the indicators of potential impairment, as well as the estimates for determining its extent, depend on factors that may vary over time, thus influencing management's judgements and estimates.

(b) ***Amortization and depreciation***

The cost of intangible assets and property, plant and equipment with a finite useful life is amortized or depreciated on a straight-line basis over their estimated useful lives. The useful economic lives of these assets are determined by management at the time of acquisition, based on historical experience with similar assets, market conditions and information regarding future events that may have an impact on useful life, such as changes in technology. Accordingly, actual useful lives may differ from estimates. Management periodically evaluates changes in technology and markets in order to update the estimated residual useful lives of assets. These periodic updates may result in changes being made to the length of the depreciation period and, therefore, the charge to be recognized in future years.

(c) ***Provisions for risks and charges***

Provisions are recognised in relation to legal and tax risks in order to recognize the possibility of adverse outcomes. The amounts of provisions reported in the financial statements in relation to such risks reflect management's best estimates at that time. Such estimates are based on assumptions, which in turn depend on factors that may change over time, and which could significantly affect estimates made by management for the preparation of the financial statements.

(d) ***Taxation***

Income taxes (current and deferred) are determined in each country in which the Group is active, on the basis of the local tax regulations in force. This process sometimes involves making complex estimates to determine the amount of taxable income and the deductible and taxable temporary differences between book and tax amounts. In particular, deferred tax assets are recognized if it is probable that they will be recovered against future taxable income. The assessment of the recoverability of deferred tax assets, which are recognized in relation to both tax loss carryforwards and deductible temporary differences, takes account of estimated future taxable income and is based on prudent tax planning.

(e) ***Allowance for impairment***

The allowance for impairment of receivables reflects the estimated loss on receivables. Provisions are made to cover expected losses on receivables and are estimated on the basis of past experience with receivables having similar levels of credit risk, current and historical levels of past due amounts, and ongoing monitoring of the quality of receivables considering current and forecast economic and market conditions. The estimates and assumptions are reviewed periodically and the effects of any changes are reflected in the income statement for the year concerned.

(f) ***Employee benefits***

The present value of the defined benefit plan liability reported in the Consolidated Financial Statements was calculated by an independent actuary. Any changes in the assumptions and/or the discount rate used will affect the calculation of present value and may significantly affect the amounts reported in the financial statements. The assumptions used to make the actuarial calculations are reviewed annually.

Present value is determined by discounting future cash flows using an interest rate for high-quality corporate bonds, issued in the currency in which the liability will be settled, and taking account of the duration of the pension plan concerned.

Further information is provided in Note 18 - “*Employee Benefits*” and in Note 25 - “*Personnel Costs*”.

5 Business Combinations

This section summarizes the principal business combinations that occurred during the years under examination.

2018

No business combination occurred during the year 2018.

2017

Le.ma, a small local operator in the Italian market, was acquired in 2017 and, in June, the Group acquired the Tru Blue business unit, operating in the distribution of coffee in Australia.

With respect to the latter acquisition, the following table provides a comparison between the amount paid and the carrying amount of the net assets acquired:

(in thousands of Euro)	**Fair value**
Property, plant and equipment	9
Inventories	118
Net assets acquired	**127**
Consideration paid	(1,734)
Goodwill	**1,607**

The acquisition of 67% of PT Caswell Indonesia was completed in August. The following table provides a comparison between the amount paid and the carrying amount of the net assets acquired:

(in thousands of Euro)	**Fair value**
Property, plant and equipment	86
Inventories	192
Trade receivables	110
Other assets	131
Cash and cash equivalents	76
Borrowings	(139)
Trade payables	(26)
Other liabilities	(10)
Net assets acquired	**420**
Consideration paid	(725)
Equity attributable to non-controlling interests	(139)
Goodwill	**444**

6 Operating Segments

IFRS 8 defines an operating segment as a component of an entity: *i)* that engages in business activities from which it may earn revenues and incur expenses; *ii)* whose operating results are reviewed regularly by the entity's chief operating decision maker; and *iii)* for which discrete financial information is available. For the purposes of IFRS 8, the Group has a single operating segment.

Details of revenue by product line, distribution channel and geographical area are provided in Note 21 - "*Revenue*".

7 Intangible Assets

The item can be broken down as follows:

(in thousands of Euro)	**Goodwill**	**Trademarks, licenses, and similar**	**Customer related assets**	**Software and other immaterial assets**	**Asset under construction**	**Total**
As at December 31, 2016	**115.448**	**67.578**	**3.750**	**4.091**	**76**	**190.943**
Of which:						
- historical cost	*115.448*	*73.893*	*5.586*	*20.117*	*76*	***215.120***
- accumulated depreciation	-	*(6.315)*	*(1.836)*	*(16.026)*	-	***(24.177)***
Change in scope of consolidation	2.149	-	-	-	-	**2.149**
Capital expenditure	-	94	-	847	281	**1.222**
Disposals	-	-	-	(6)	-	**(6)**
Amortization	-	(3.087)	(606)	(1.760)	-	**(5.453)**
Reclassification	-	-	-	231	(231)	
Exchange differences	(3.159)	(2.158)	(218)	(83)	(6)	**(5.624)**
As at December 31, 2017	**114.438**	**62.427**	**2.926**	**3.320**	**120**	***183.231***
Of which:						-
- historical cost	*114.438*	*71.568*	*5.184*	*19.638*	**120**	***210.948***
- accumulated depreciation	-	*(9.141)*	*(2.258)*	*(16.318)*	-	***(27.717)***
Capital expenditure	-	86	7	595	2.096	**2.784**
Disposals	-	-	-	(18)	-	**(18)**
Amortization	-	(3.054)	(659)	(1.481)	-	**(5.194)**
Reclassification	-	-	-	348	(348)	-
Exchange differences	1.264	631	68	36	(3)	**1.996**
As at December 31, 2018	**115.702**	**60.090**	**2.342**	**2.800**	**1.865**	**182.799**
Of which:						-
- historical cost	*115.702*	*71.847*	*5.330*	*20.877*	*1.865*	***215.621***
- accumulated depreciation	-	*(11.757)*	*(2.988)*	*(18.077)*	-	***(32.822)***

Intangible assets at December 31, 2018 principally comprise goodwill. Specifically, total goodwill at December 31, 2018, in addition to the acquisitions referred to in note 5, mainly arose from the following transactions:

- acquisition in 2002 of Meira Oy (Finland) for which goodwill amounted to Euro 24,000 thousand (the same amount of goodwill was recognised at December 31, 2017);
- acquisition in 2005 of the US retail activities of Sara Lee and, in 2011, of Kauai Coffee Company LLC for which goodwill amounted to Euro 3,151 thousand (Euro 3,008 thousand at December 31, 2017);
- acquisition in 2010, through the Australian subsidiary, of Espresso Italia Ltd for which goodwill amounted to Euro 4,655 thousand (Euro 4,921 thousand at December 31, 2017);
- acquisition in 2014 of Boncafe for which goodwill amounted to Euro 34,893 thousand (Euro 33,367 thousand at December 31, 2017); and
- acquisition in 2016 of Nutricafés for which goodwill amounted to Euro 41,191 thousand (the same amount of goodwill was reported at December 31, 2017);
- acquisition in 2017 of the Tru Blue business line for which provisional goodwill amounted to Euro 1,472 thousand (Euro 1,555 thousand was reported at December 31, 2017).

Trademarks, licenses and similar rights principally include:

i) the “Chase & Sanborn”, “Chock full o’Nuts”, “Hills Bros” and “MJB” trademarks held by MZB USA, amounting to approximately Euro 7,073 thousand at December 31, 2018 (Euro 6,753 thousand at December 31, 2017) whose recoverability was checked as part of the impairment tests;

ii) the Puccino’s and Segafredo Zanetti Espresso families of trademarks, with finite useful lives, amounting to Euro 1,969 thousand and Euro 7,954 thousand at December 31, 2018, respectively (Euro 2,093 thousand and Euro 8,458 thousand at December 31, 2017, respectively). Such trademarks were acquired from MZ Industries by Massimo Zanetti Beverage S.A. and Segafredo Zanetti Espresso Worldwide Ltd respectively, on September 25, 2014, for a consideration of Euro 2,500 thousand and Euro 10,100 thousand, respectively, based on the specific appraisals carried out by Bugnion S.p.A. During 2018 Massimo Zanetti Beverage SA has sold at net book value Puccino’s brand to Segafredo Zanetti Espresso Worldwide Ltd;

iii) the Boncafe family of trademarks amounting to Euro 13,121 thousand at December 31, 2018 (Euro 13,580 thousand at December 31, 2017).

iv) trademarks, distinctive features and commercial information of Ceca S.A. (Based in Costa Rica and part of Neumann Gruppe GmbH) acquired in April 2015 for a consideration of USD 3,500 thousand, amounting to USD 2,503 thousand at December 31, 2018.

v) the Cafè Nicola and Chave D’Ouro trademarks, with a finite useful life, with a carrying amount of Euro 27,200 thousand at December 31, 2018 (Euro 28,400 at December 31, 2017).

Impairment test

At each year-end, the Group carries out impairment testing of intangible assets with an indefinite useful life. The recoverable value of the CGUs to which individual assets are allocated is determined in terms of CGUs value in use and/or fair value.

The Group has progressively changed its organisational structure in order to improve the monitoring of the various geographical areas and ensure the full and prompt implementation of the strategic guidelines. Specifically, the following areas were identified (each allocated to a strategic manager reporting directly to the CEO): Americas, Asia Pacific and Cafès, Northern Europe, Southern Europe.

In 2017, following the changes in its organisational structure, the Group brought the CGUs into line with the above areas.

For the purposes of impairment testing, the value in use of the CGUs is based on the present value of forecast figures for each of the CGUs, which in turn is based on the following assumptions:

- the projections included in the business plan submitted to the Board of Directors on February 22, 2019 are broadly in line with the forecast market growth for each CGU, considering volume, price and market. Management determined expected CGU cash flows in line with forecast levels of revenues and EBITDA based on past performance, and expected economic and market trends. The business plan includes projections for the level of revenues, investment and margins, as well as for the trends in the principal market variables, such as inflation, nominal interest rates and exchange rates.

- Expected cash flows, which reflect the results of normal business plus depreciation and amortization less the cost of expected investments, include a terminal value to estimate the value of future results for the years subsequent to the 3 year period (2019-2021) analysed in the business plan. Such terminal value has been calculated using a long-term growth rate (g-rate) for each CGU, representing the expected long-term inflation rate in the countries in which each CGU operates, based on the estimates of the International Monetary Fund (see the summary table below). In estimating a sustainable medium to long term EBITDA, an EBITDA margin equal to that estimated for the final year of the business plan has been applied to revenues (in turn identified by applying the g-rate to revenues in the final year covered by the business plan). Annual investments were estimated based on the amount deemed to represent both the normalised investments necessary to maintain the existing assets and those required to support the organic growth of the CGUs. A zero change in net working capital has been assumed in line with normal professional practice in relation to impairment testing.

- Expected cash flows are discounted at a weighted average cost of capital ("**WACC**") rate which reflects current market valuation of the time value of money for the period in question and the specific risks in the countries in which each CGU is active. The WACC has been calculated based on the following:
    - a risk-free rate equal to the average return on 10 year government bonds related to the main countries in which each CGU is active;
    - a beta coefficient in line with a group of comparable listed companies operating in the coffee business;
    - the cost of borrowing based on the estimated average debt of the same group of comparable listed companies as used for reference to determine the beta coefficient; and
    - a debt-equity ratio based on the average ratio of the sector;
    - the tax rate utilized is the applicable tax rate for each country in which the CGU is active;
    - an additional risk premium has been reflected.

The recoverable value of the individual CGUs at December 31, 2018, calculated on the aforementioned basis, is greater than the related carrying amount. The following table summarises the results of the impairment test at December 31, 2018.

As at December 31, 2018	**Americas**	**Northern Europe**	**Southern Europe**	**Asia-Pacific and Cafés**	**Group**
Recoverable amount / carrying amount	154%	337%	162%	171%	169%
WACC	7,38%	5,25%	6,14%	6,71%	6,71%
g-rate	2,20%	2,17%	1,87%	1,86%	2,07%

While the assumptions regarding the overall economic context, developments in the markets in which the Group operates and future cash flow estimates are all considered to be reasonable, changes in assumptions or circumstances may lead to changes in the above analysis. A sensitivity analysis was carried out for each CGU to consider the effect on the recoverable value of the following changes in assumptions: *i)* an increase of 0.5% (50 basis points) in the WACC; *ii)* a reduction of 0.75% (75 basis points) in the g-rate; and *iii)* a decrease of 7.5% in the EBITDA.

The results of such sensitivity analysis are as follows:

As at December 31, 2018	**Americas**	**Northern Europe**	**Southern Europe**	**Asia-Pacific and Cafés**	**Group**
Recoverable amount / carrying amount (WACC +0.5%)	140%	290%	144%	152%	151%
Recoverable amount / carrying amount (g-rate -0.75%)	135%	273%	138%	146%	145%
Recoverable amount / carrying amount (EBITDA -7.5%)	135%	296%	140%	149%	147%

Considering the results of the sensitivity analysis, no impairments have been identified for the intangible assets with an indefinite useful life.

8 Property, Plant and Equipment

Property, plant and equipment includes assets held under finance lease totalling Euro 6,741 thousand and Euro 5,147 thousand at December 31, 2018 and 2017, respectively.

(in thousands of Euro)	**Land and buildings**	**Plant and machinery**	**Industrial and commercial equipment and other assets**	**Bar equipment**	**Asset under construction**	**Total**
As at December 31, 2016	**81,928**	**70,590**	**21,845**	**44,222**	**1,588**	**220,173**
Of which:						
- historical cost	*122,134*	*152,170*	*77,617*	*174,774*	*1,588*	***528,283***
- accumulated depreciation	*(40,206)*	*(81,580)*	*(55,772)*	*(130,552)*	-	***(308,110)***
Change in scope of consolidation	-	*25*	*32*	*144*	-	***201***
Capital expenditure	1,439	4,984	6,040	19,007	3,224	**34,694**
Disposals	(236)	(23)	(335)	(322)	-	**(916)**
Amortization	(4,029)	(6,407)	(5,390)	(15,516)	-	**(31,342)**
Reclassifications	85	1,867	461	17	(2,430)	**0**
Exchange differences	(2,088)	(6,552)	(640)	(552)	(148)	**(9,980)**
As at December 31, 2017	**77,099**	**64,484**	**22,013**	**47,000**	**2,234**	**212,830**
Of which:						
- historical cost	*118,801*	*147,345*	*79,495*	*178,093*	*2,234*	***525,968***
- accumulated depreciation	*(41,702)*	*(82,861)*	*(57,482)*	*(131,093)*		***(313,138)***
Capital expenditure	1,536	4,357	5,606	15,873	2,434	**29,806**
Disposals	(38)	(17)	(179)	(453)	-	**(687)**
Amortization	(1,574)	(7,095)	(5,541)	(15,342)	-	**(29,552)**
Reclassifications	748	657	1,051	108	(2,564)	**-**
Exchange differences	761	2,050	76	(215)	58	**2,730**
As at December 31, 2018	**78,532**	**64,436**	**23,026**	**46,971**	**2,162**	**215,127**
Of which:						
- historical cost	*121,830*	*154,894*	*80,931*	*182,209*	*2,162*	***542,026***
- accumulated depreciation	*(43,298)*	*(90,458)*	*(57,905)*	*(135,238)*	-	***(326,899)***

Bar equipment includes coffee machines, grinders and company-branded products. Bar equipment is generally provided free of charge to customers in the *Foodservice* channel mainly in Italy, France, Portugal, Germany and Austria. This equipment is of a commercial nature and is designed to build customer loyalty.

9 Investment Properties

The item can be broken down as follows:

(in thousands of Euro)	Land	Buildings	Total
As at December 31, 2016	**1,019**	**3,300**	**4,319**
Of which:			
- historical cost	*1,019*	*4,125*	*5,144*
- accumulated depreciation	*-*	*(825)*	*(825)*
	140	*560*	700
Amortization	-	(132)	(132)
As at December 31, 2017	**1,159**	**3,728**	**4,887**
Of which:			
- historical cost	*1,159*	*4,685*	*5,844*
- accumulated depreciation	*-*	*(957)*	*(957)*
Amortization	-	(116)	(116)
As at December 31, 2018	**1,159**	**3,612**	**4,771**
Of which:			
- historical cost	*1,159*	*4,685*	*5,844*
- accumulated depreciation	*-*	*(1,073)*	*(1,073)*

Investment properties include properties in Modena (MO), Mantua (MN) and Cortina D'Ampezzo (BL), which are held for the purpose of earning rental income.

Management believes that the fair value of investment properties is in line with the carrying amount. The fair value of investment properties is considered to be the value of individual assets on the reporting date, assuming that they were to be sold in arms-length transactions between market participants at market conditions. The determination of fair value takes into account the conditions of individual assets, of the revenues they currently generate, and other considerations relevant to market participants in determining the market values of the assets.

10 Investments in joint ventures and associates

The following table shows the changes in this item for the period in question:

(in thousands of Euro)	**As at December 31, 2018**
As at December 31, 2017	**9,616**
Net increases	1,200
Profit for the Period	(879)
Exchange differences	467
As at December 31, 2018	**10,404**

The Group has made a capital contribution for Euro 1,200 thousand and Euro 840 thousand, respectively in 2018 and 2017, to Virtus Pallacanestro Bologna S.S.D. a r.l., located in Bologna. Consequently to the capital increase partialy paid-up by other shareholders, the share held by the Group has decreased from the former 40% to the current 37,09%.

11 Current and Non-Current Trade Receivables

The item can be broken down as follows:

(in thousands of Euro)	As at December 31, 2018	As at December 31, 2017
Trade receivables and other receivables	136,763	138,745
Allowance for impairment of trade receivables	(15,931)	(15,340)
Total trade receivables	**120,832**	**123,405**
Non-current trade receivables and other receivables from customers	7,867	8,477
Non-current allowance for impairment of trade receivables	(5,325)	(5,401)
Total non-current trade receivables	**2,542**	**3,076**
Total current and non-current trade receivables	**123,374**	**126,481**

The following table sets forth the movements in the allowance for impairment of trade receivables:

(in thousands of Euro)	**Allowance for impairment of trade receivables**	**Non-current allowance for impairment of trade receivables**
At December 31, 2017	**15,340**	**5,401**
First time adoption IFRS 9	2,931	860
Accruals	1,507	1,083
Releases	(847)	-
Utilizations	(2,988)	(2,019)
Exchange differences	(12)	-
As at December 31, 2018	**15,931**	**5,325**

Please note that consequently to first time adoption of IFRS 9, the Group has accrued Euro 3,791 thousand as allowance for impairment of trade receivables as explained above. Please refer to note 2.5 "*Impact from new accounting standards*" for further details.

12 Deferred Tax Assets and Liabilities

The following table sets forth the movements in deferred tax assets and liabilities:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
As at January 1	**(12,651)**	**(18,790)**
Of which:		
- deferred tax assets	*10,244*	*10,279*
- deferred tax liabilities	*(22,895)*	*(29,069)*
Charged to the income statement	(1,336)	3,337
Credited/(Charged) to the other comprehensive income	(429)	962
Change in scope of consolidation	821	-
Reclassifications	(825)	(31)
Exchange differences	(615)	1,871
As at December 31	**(15,035)**	**(12,651)**
Of which:		
- deferred tax assets	*11,828*	*10,244*
- deferred tax liabilities	*(26,863)*	*(22,895)*

Deferred tax assets mainly relate to carry-forward tax losses and accruals to the provisions for obsolescence, impairment and risks that will become tax deductible only when the related loss becomes certain. Deferred tax liabilities mainly relate to intangible assets and property, plant and equipment whose tax deductible amount is below the related carrying amount. The Euro 2,384 thousand net increase in deferred tax liabilities is mainly due to higher taxable profits of the Group.

13 Other Current and Non-Current Assets

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Guarantee deposits	2,225	2,098
Derivatives on exchange rates	100	-
Other non-current assets	4,249	11,571
Total other non-current assets	**6,574**	**13,669**
Financial receivables	3,728	2,327
Advances to suppliers and others	6,768	8,408
Other tax credits	1,630	1,360
Derivatives on exchange rates	1,050	-
Other current assets	2,396	6,100
Total other current assets	**15,572**	**18,195**

Assets relating to derivative contracts reflect the measurement of derivative financial instruments which had a positive fair value at the reporting date. Please refer to Note 3 - " *Fair value estimate*" for further details.

The change in the detail above compared with year 2017 is due to the reclassification related to IFRS 15 for "Non current and current contract assets" as reported in Note 2.5 "*Impact from new accounting standards*"

14 Inventories

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Raw materials	58,047	57,256
Finished goods	70,495	67,017
Work in progress	3,107	3,724
Total	**131,649**	**127,997**

Inventories are stated net of the provision for obsolescence, amounting to Euro 1,214 thousand and Euro 1,190 thousand at December 31, 2018 and 2017 respectively. The accruals to these provisions for 2018 and 2017 amount to Euro 95 thousand and Euro 129 thousand, respectively.

15 Cash and cash equivalents

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Cash at bank	92,527	88,791
Cash and cash equivalents	964	803
Total cash and cash equivalents	**93,491**	**89,594**

The following table sets for a breakdown of cash and cash equivalents by currency at December 31, 2018 and 2017:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Cash and cash equivalents denominated in Euro	48,360	45,737
Cash and cash equivalents denominated in USD	32,855	33,576
Cash and cash equivalents denominated in other currencies	12,276	10,281
Total cash and cash equivalents	**93,491**	**89,594**

16 Equity

Share capital

At December 31, 2018, the issued and fully paid-up share capital of the Parent amounted to Euro 34,300 thousand (Euro 34,300 thousand at December 31, 2017) and comprised 34,300,000 ordinary shares without nominal value.

Other reserves and retained earnings

Other reserves and retained earnings are detailed as follows:

(in thousands of Euro)	*Legal reserve*	*Share premium reserve*	*Other reserves*	*Cash flow hedge reserve*	*Net investment hedge*	*Translation reserve*	*Total other reserves*	*Retained earnings*
As at December 31, 2016	**3,786**	**62,918**	**46,792**	**740**	**(8,578)**	**19,080**	**124,738**	**149,057**
Remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**(194)**
Tax on remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**54**
Cash flow hedge: fair value gains/(losses) in the period	-	-	-	(3,143)	-	-	**(3,143)**	**-**
Tax on fair value gains/(losses) in the period from cash flow hedges	-	-	-	962	-	-	**962**	**-**
Currency translation differences	-	-	-	-	-	(19,660)	**(19,660)**	**-**
Acquisition of PT Caswels Indonesia	-	-	-	-	-	-	**-**	**-**
Dividends paid to non-controlling interests	-	-	(5,145)	-	-	-	**(5,145)**	**-**
Profit for the year	-	-	-	-	-	-	**-**	**17,936**
Reclassifications	410	-	-	-	-	-	**410**	**(410)**
As at December 31, 2017	**4,196**	**62,918**	**41,647**	**(1,441)**	**(8,578)**	**(580)**	**98,162**	**166,443**
Remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**159**
Tax on remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**(36)**
Cash flow hedge: fair value gain/(losses) in the period	-	-	-	1,203	-	-	**1,203**	**-**
Tax on fair value gain/(losses) in the period from cash flow hedges	-	-	-	(429)	-	-	**(429)**	**-**
Currency translation differences	-	-	-	-	-	5,955	**5,955**	**-**
Dividends paid to non-controlling interests	-	-	(5,831)	-	-	-	**(5,831)**	**-**
Profit for the year	-	-	-	-	-	-	**-**	**19,792**
Reclassifications	336	-	-	-	-	-	**336**	**(336)**
As at December 31, 2018	**4,532**	**62,918**	**35,816**	**(667)**	**(8,578)**	**5,375**	**99,396**	**183,069**

The share premium reserve, amounting to Euro 62,918 thousand at December 31, 2018, is recognised net of the listing costs incurred in 2015 and related to the share capital increase of Euro 3,862 thousand (net of taxes) and in accordance with IAS 32.

17 Current and Non-current borrowings

The following table sets forth a breakdown of current and non-current borrowings at December 31, 2018 and 2017:

As at December 31, 2018 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	45,243	168,561	4,235	218,039
Short-term borrowings	43,647	-	-	43,647
Advances from factors and banks	6,004	-	-	6,004
Finance lease liabilities	1,743	2,488	16	4,247
Total	**96,637**	**171,049**	**4,251**	**271,937**

As at December 31, 2017 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	24,259	199,484	1,969	225,712
Short-term borrowings	45,306	-	-	45,306
Advances from factors and banks	7,707	-	-	7,707
Finance lease liabilities	1,459	2,677	15	4,150
Total	**78,731**	**202,161**	**1,984**	**282,876**

Long-term borrowings

The following table provides details of the main long-term borrowings in place:

Interest rate	Year	Initial principal amount	As at December 31, 2018	As at December 31, 201
		(in thousands)	*(in thousands of Euro)*	
denominated in Euro				
Euribor 6M + 1,25%	2015	5,000	-	847
Euribor 3M + 1,25%	2015	12,000	7,000	8,333
Euribor 6M + 1%	2016	5,000	1,124	2,796
Euribor 3M + 1,10%	2016	15,000	8,333	11,657
Euribor 6M + 1,35%	2016	50,000	50,000	50,000
Euribor 6M + 0,90%	2016	9,000	7,328	8,991
Euribor 6M + 1,05%	2016	50,000	44,861	49,824
Euribor 6M + 0,9%	2016	10,000	9,998	9,997
Euribor 3M + 0,75%	2016	10,000	7,514	9,996
Euribor 6M+1%	2016	10,000	7,489	9,984
0,80%	2017	10,000	9,988	9,984
Euribor 3M +0,85%	2017	15,000	14,988	14,985
Euribor 3M +1,05%	2017	10,000	7,055	9,023
Euribor 3M +0,75%	2018	15,000	14,987	-
Other loans	-	-	2,607	2,951
		subtotal	**193,272**	**199,369**
denominated in USD				
6,5% /Libor 3M + 7,5%	2015	3,000	1,703	1,915
Libor 3M + 1,50%	2017	30,000	23,064	24,428
		subtotal	**24,767**	**26,343**
Total			**218,039**	**225,712**
of which non-current			*172,796*	*201,453*
of which current			*45,243*	*24,259*

Certain of the Group's loan contracts require compliance with financial covenants and/or obligations to act or refrain, including the obligation to set up collateral or personal guarantees (negative pledges), and cross-defaults, typical of the international practice, to be fulfilled by the debtor companies:

- financial covenants: such clauses require the group companies to comply with certain target financial ratios (such as ratio of net indebtedness to profitability, profitability to finance charges and net debt to equity) and may result in changes to interest rates if certain conditions arise. If financial covenants are breached, the group companies may be required to repay the loan immediately;
- negative pledges: such clauses allow financial institutions to require early repayment of loans and set limits to the Group Company's rights to use Company assets as collateral or security in favour of third parties or to vary controlling shareholdings without the express consent of the financial institution;
- cross-defaults: such clause, where included in loan contracts, provides that, when a breach of a requirement is declared in relation to contracts other than the loan contracts, such breach constitutes a breach of the loan contracts.

The Group's loan contracts during the periods under examination require compliance with certain operational and financial covenants, which had been complied with at December 31, 2018 and 2017. Consequently, there are no events of default to be reported.

Within the scope of the ordinary fund raising activities, the Group entered into a medium-to-long term loan agreement with Banca Popolare di Sondrio in April 2018 for an overall amount of Euro 15,000 thousand reaching maturity in 2025.

The following table reports the long-term borrowings by variable and fixed rates of interest and by currency (Euro and USD)

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Principal amount of long-term borrowings		
- at variable rate	208,754	216,548
- at fixed rate	10,000	10,000
Notional value of derivatives on interest rates	96,290	90,833
Long-term borrowings converted at fixed rate	49%	45%
Remaining portion of long-term borrowings at variable rate	51%	55%
Long-term borrowings denominated in Euro	89%	88%
Long-term borrowings denominated in USD	11%	12%

It should be noted that with the exception of the interest rate swap contract signed during the year 2018 for a notional amount of 11,790 milions of Euro, all the other interest rate swaps, used by the Group to reduce the exposure to interest rate fluctuations, do not comply with the requirements for hedge accounting set forth by IFRS 9 "Financial instruments: recognition and valuation". Please refer to note 3 "Interest rate risk"

Advances from factors and banks

Advances from factors and banks relate to advances received from factors or banks in relation to trade receivables assigned during the year that do not meet the criteria established for the derecognition of the financial asset.

Net financial indebtedness

The following table sets forth a breakdown of the Group's net financial indebtedness as at December 31, 2018 and 2017, determined in accordance with the CONSOB communication dated July 28, 2006 and in compliance with the Recommendation ESMA/2013/319:

		As at December 31,	
(in thousands of Euro)		**2018**	**2017**
A	Cash and cash equivalents	(964)	(803)
B	Cash at bank	(92,527)	(88,791)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(93,491)**	**(89,594)**
E	**Current financial receivables**	**(3,728)**	**(2,327)**
F	Current loans	49,651	53,014
G	Current portion of non-current loans	45,243	24,259
H	Other current financial payables	1,743	1,459
I	**Current indebtedness (F+G+H)**	**96,637**	**78,731**
J	**Net current indebtedness (I+E+D)**	**(582)**	**(13,189)**
K	Non-current medium/long-term loans	172,796	201,453
L	Issued bonds	-	-
M	Other non-current financial payables	2,504	2,692
N	**Non-current indebtedness (K+L+M)**	**175,300**	**204,145**
O	**Net financial indebtedness (J+N)**	**174,718**	**190,955**

The table below shows the reconciliation between net financial indebtedness at December 31, 2017 and 2018:

(in thousands of Euro)	Cash and cash equivalents	Current financial receivables	Current financial indebtedness	Non-current financial indebtedness	Total
Net financial indebtedness at December 31, 2017	**(89,594)**	**(2,327)**	**78,731**	**204,145**	**190,955**
Cash flows	(2,466)	(1,253)	-	-	**(3,719)**
Proceeds from long-term borrowings	-	-	1,224	14,136	**15,360**
Repayment of long-term borrowings	-	-	(24,235)	-	**(24,235)**
(Decrease)/increase in short-term loans and borrowings	-	-	(3,079)	(77)	**(3,156)**
Currency effect	(1,431)	(148)	106	986	**(487)**
Reclassifications	-	-	43,889	(43,889)	**-**
Other non-monetary items	-	-	-	(1)	**(1)**
Net financial indebtedness at December 31, 2018	**(93,491)**	**(3,728)**	**96,637**	**175,300**	**174,718**

18 Employee Benefits

Employee benefits mainly include the provision for termination indemnities (TFR) for employees of Group entities in Italy.

Employee benefits are detailed as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
As at January 1	**8,987**	**9,268**
Service costs	643	335
Interest expenses	56	69
Benefits paid	(776)	(623)
Remeasurements of employee benefits	(159)	27
Exchange differences	71	(89)
As at December 31	**8,822**	**8,987**

The following table provides details of the actuarial assumptions used to measure the defined benefit pension plans:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	3.27%	2.00%
Demographic assumptions		
Probability of resignation	8.75%	7.96%
Probability of advance payments to employees	0.63%	0.81%

Demographic assumptions reflect actuarial expectations, based on relevant, published statistical data relating to the business sector for the countries in which the Group is active and the average number of employees during the periods in question.

The following table provides a sensitivity analysis of the defined benefit pension plans to changes in the key assumptions:

(in thousands of Euro)	Changes in assumptions (%)	Impact on employee benefits based on			
		Increase in assumptions	Decrease in assumptions	Increase in assumptions	Decrease in assumptions
Economic assumptions		*as at December 31, 2018*		*as at December 31, 2017*	
Inflation rate	0.50%	52	(51)	66	(64)
Discount rate	0.50%	(89)	94	(112)	118
Demographic assumptions					
Probability of resignation	0.50%	6	(6)	0	(0)
Probability of advance payments to employees	0.50%	6	(5)	0	(1)

The above sensitivity analysis is based on changes being made to individual assumptions while maintaining other assumptions constant, although it is recognized that in practice changes in a given assumption often result in changes being made to other assumptions because of potential links. The sensitivities reported in the table above are calculated applying the same methodology used to calculate the liability included in the consolidated statement of financial position (the projected unit credit method).

The Group is exposed to certain risks relating to its defined benefit pension plans, including the following:

Interest rate risk

The present value of defined benefit plans is determined by discounting the future cash flows using an interest rate based on that of high-quality corporate bonds. A decrease in the discount rate would lead to an increase in the liability.

Probability of retirement, termination and advance payments

The present value of defined benefit plans is determined using best estimates of termination and advance payments. An increase in the level of retirement, termination and advance payments would result in an increase in the liability.

The following table provides details of expected payments during the next few years (not discounted) in relation to employee benefits.

(in thousands of Euro)	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Expected benefits paid to employees at December 31, 2018	989	913	3,276	4,135	**9,313**
Expected benefits paid to employees as at December 31, 2017	850	1,057	2,630	5,520	**10,057**

Should the US subsidiary decide to leave the multi-employer plan, the Company may still be required to make contributions to cover the benefits already earned. Based on the information available, the liability on ceasing membership of the plan would amount to approximately Euro 9,171 thousand. This amount is not reflected in the Consolidated Financial Statements, since management does not consider it to be a probable event.

19 Other Non-Current Provisions

The following table sets forth a breakdown of other non-current provisions:

(in thousands of Euro)	**Provision for agents' termination indemnities**	**Provisions for other charges**	**Total**
As at December 31, 2017	**1,528**	**1,458**	**2,986**
Accruals	169	290	**459**
Utilizations	(27)	(216)	**(243)**
Releases	-	-	**-**
Exchange differences	(12)	-	**(12)**
As at December 31, 2018	**1,658**	**1,532**	**3,190**

On May 9, 2011, Massimo Zanetti Beverage U.S.A. Inc., was summoned, along with several other companies operating in the production and marketing of coffee, by the Council for Education and Research on Toxics, which accused them of failing to include, according to the *California Safe Drinking Water and Toxic Enforcement Act* of 1986 (the so called *Proposition 65)*, in the product labels, a warning relating to the presence of a component in coffee allegedly harmful to health (acrylamide). In December 2015, Massimo Zanetti Beverage U.S.A. Inc. and the defendants summoned in the court case were unsuccessful in the proceedings. Phase 2 of the litigation was conducted in the fall of 2017 and a decision against the defendants was made in the spring of 2018. Immediately prior to the scheduled beginning on October 15, 2018 of the trial's Phase 3, a California Court of Appeals granted the Company's and its co-defendants' Motion to Stay, resulting in a suspension of further proceedings in this matter until such time as OEHHA announces its final decision on this proposed new regulation. OEHHA is expected to announce that decision by early in 2019. Industry experts consider it likely that the proposed new regulation will be enacted. This regulation will state that the presence Proposition 65 ingredients in the coffee as conseguence from roasting process does not represent a risk for cancer, consequently it is not mandatory to communicate their presence. The company belives that the new regulation will be approved in the first semester of 2019. Once enacted, the new regulation should form the basis of a successful submission by the Company and its co-defendants of a Motion to dismiss the entire matter. Consequently the management has not recored an accrual for this matter.

20 Other Current and Non-Current Liabilities

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Derivatives on interest rates	1,119	1,115
Derivatives on exchange rates	-	148
Derivatives on commodities	26	-
Non-current financial guarantee contracts	1,170	1,170
Other non-current liabilities	224	614
Total other non-current liabilities	**2,539**	**3,047**
Payables to personnel	10,071	10,273
Payables to social security institutions	4,088	4,120
Other tax payables	5,313	5,949
Current financial guarantee contracts	830	830
Advances from customers	-	1,395
Payables to agents	797	1,077
Derivatives on interest rates	307	178
Derivatives on exchange rates	-	2,233
Derivatives on commodities	1,564	-
Other current liabilities	7,046	10,229
Total other current liabilities	**30,016**	**36,284**

Please refer to Note 3 - "*Fair value estimate*" for further details regarding liabilities related to derivative instruments.

Financial guarantee contracts refer to the effects of the recognition of the financial guarantee given by the Group in favour of Claris Factor S.p.A. and MBFacta S.p.A. in relation to the loans disbursed by the latter to group customers in the form of discounted bills of exchange. Such guarantees are part of a broader business arrangement with customers, and in particular with bars in Italy. At December 31, 2018, total loans disbursed to customers by Claris Factor SpA and covered by group guarantees, amounted to Euro 12,445 thousand (Euro 12,966 thousand at December 31, 2017). The Group monitors repayment of loans covered by such guarantees to evaluate and manage its exposure.

21 Revenue

The following table sets forth a breakdown of revenue for the years ended December 31, 2018 and 2017, the trends of which are illustrated in the Management Report and here below.

The following table shows a breakdown of revenue by distribution channel:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Foodservice	208,784	211,850
Mass Market	327,362	357,467
Private Label	294,875	325,197
Other	60,182	61,551
Total	**891,203**	**956,065**

The following table shows a breakdown of revenue by geographic area:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Americas	396,794	447,407
Northern Europe	180,564	183,785
Southern Europe	234,950	247,163
Asia-Pacific and Cafés*	78,895	77,710
Total	**891,203**	**956,065**

(*) This geographic area includes the revenue generated by the international network of cafés

Please refer also to Note 2.5 "*Impacts from new accounting standards*" referring to the effect of IFRS 15 application on revenues at December 31, 2018.

22 Other Income

Other income relates mainly to rental contracts.

23 Purchases of raw, ancillary, and consumable materials and goods

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Purchases of raw materials	372,225	419,021
Purchases of finished goods	68,444	78,840
Purchases of packaging and other	61,738	60,832
Total	**502,407**	**558,693**

24 Purchases of Services, Leases and Rentals

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Advertising and promotions	42,315	46,197
Transportation costs	24,994	24,006
Agent commissions and other	15,527	21,052
Maintenance, repair and support	17,629	17,300
Leases and rentals	13,959	14,914
Utilities	13,626	13,044
Travel expenses and fuel	9,657	9,364
Consultancy and collaborations	11,715	11,052
Temporary workers	3,257	4,039
Insurance	2,696	2,752
Outsourced processing	3,108	3,433
Other services	15,642	15,987
Total	**174,125**	**183,140**

In 2018, purchases of services and leases and rentals included non-recurring costs of Euro 1.194 related to the reorganisation operations began in the Group in second semester 2018.

25 Personnel Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Wages and salaries	115,916	117,772
Social security contributions	18,880	18,951
Directors' fees	2,989	3,473
Contributions to pension funds	1,401	1,070
Other personnel-related costs	3,130	4,374
Total	**142,316**	**145,640**

In 2018, personnel costs included non-recurring costs of Euro 670 thousand mainly related to non recurrent costs for the reorganisation operations began in the Group in second semester 2018, in particular in Southern Europe.

The following table shows the average number and the number of Group employees:

	Average number of employees during the year		Number of employees as at December 31,	
(no.)	**2018**	**2017**	**2018**	**2017**
Executives	110	115	108	112
Managers and white collar staff	1,920	1,859	1,948	1,893
Blue-collar workers	1,301	1,312	1,303	1,300
Total	**3,331**	**3,286**	**3,359**	**3,305**

26 Other Operating Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Indirect taxes and levies	3,458	4,187
Other costs	2,397	2,298
Accruals of provisions	459	226
Total	**6,314**	**6,711**

In 2018, personnel costs included non-recurring costs of Euro 630 thousand mainly related to non recurrent costs for the reorganisation operations began in the Group in second semester 2018.

27 Amortization, Depreciation and Impairment

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Depreciation of property, plant and equipment	29,552	31,342
Amortization of intangible assets	5,194	5,453
Depreciation of investment property	116	132
Allowances for doubtful accounts	1,743	1,767
Total	**36,605**	**38,694**

28 Finance Income and Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Interest expense	4,453	4,878
Interest expense to related parties	1,227	1,298
Net foreign exchange gains	986	814
Net fair value gains on derivative financial instruments	15	(20)
Other finance costs	915	1,325
Total finance costs	**7,596**	**8,295**
Finance income	(337)	(299)
Total net finance expense	**7,259**	**7,996**

29 Income Tax Expense

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Current income tax	7,019	8,191
Deferred tax	1,336	(3,337)
Total	**8,355**	**4,854**

The following table provides a reconciliation between theoretical and effective income tax expenses:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Profit before tax	*28,252*	*22,964*
Theoretical taxes	**6,780**	**5,511**
Domestic tax rate impact	(715)	421
IRAP	410	295
ACE	242	(481)
Permanent differences and minor items	1,638	(892)
Income tax expense	**8,355**	**4,854**

30 Earnings per share

The following table provides a breakdown of earnings per share:

	For the year ended December 31,	
(in thousands of Euro, unless otherwise indicated)	**2018**	**2017**
Average number of ordinary shares	34,300,000	34,300,000
Profit attributable to owners of the Parent	19,792	17,936
Basic and diluted earnings per share (in Euro)	**0.58**	**0.52**

Basic earnings per share and diluted earnings per share were the same for the years ended December 31, 2018 and 2017 as there were no dilutive options and other dilutive potential ordinary shares.

31 Commitments

Contractual commitments to third parties and related parties at December 31, 2018, not yet recognised, include contracts for the purchase of green coffee totalling Euro 190,992 thousand (Euro 221,639 thousand at December 31, 2017).

The following table provides details of commitments arising in relation to non-cancellable operating leases outstanding at December 31, 2018:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Less than 12 months	11,358	8,897
Between 1 and 5 years	27,690	20,171
Over 5 years	11,105	7,536
Total	**50,154**	**36,604**

Please refer to Note 2.6 "*Recently-Issued Accounting Standards*" for the adoption of IFRS 16 for the Group.

The following table shows the guarantees given by the Group in favour of third parties, broken down by beneficiary.

(in thousands of Euro)	**Parent**	**Subsidiaries**	**Third parties**	**Total**
Guarantees				
As at December 31, 2018	39,000	8,576	12,445	60,021
As at December 31, 2017	39,000	7,584	12,966	59,550

Parent

As foreseen by the terms of a contract entered into between Doge S.p.A. and the Milan branch of Fortis Bank S.A./N.V., which was subsequently taken over by Banca Nazionale del Lavoro S.p.A, on January 22, 2009, Doge Finland Oy (now merged into Meira OY Ltd) created a mortgage over the land and buildings in Vallila Paahtimo - Aleksis Kiven Katu 15, Helsinki, Finland, as guarantee up to a maximum of Euro 24,000 thousand against all obligations of Doge S.p.A.. As a result of the assumption of the loan by the Company during 2015, this guarantee serves all obligations of the Company.
On March 21, 2016, the subsidiary Segafredo Zanetti Italia S.p.A. issued a surety in favour of UBI Banca S.p.A. in relation to the credit line granted by the latter to the Parent totalling Euro 15,000 thousand.

Subsidiaries

The Company has provided guarantees in favour of banking institutes on behalf of Group companies. The main guarantees include:

- a guarantee in favour of United Overseas Bank Limited dated January 27, 2016 in relation to the credit lines granted by the latter to Boncafe International Pte Ltd for an amount of SGD 5,200 thousand (Euro 3,335 thousand) at December 31, 2018;
- a guarantee in favour of Intesa San Paolo S.p.A. dated May 16, 2017 in relation to the credit lines granted by the latter to Boncafe' (Hong Kong) Limited for an amount of HKD 20,000 thousand (Euro 2,230 thousand) at December 31, 2018;
- a guarantee in favour of Unicredit Bank AG dated October 30, 2018 in relation to the credit lines granted by the latter to Boncafe International Pte Ltd for an amount of USD 1,500 thousand (Euro 1,310 thousand) at December 31, 2018;

Third parties

The Group gives guarantees in favour of its customers, specifically, bars in Italy, in relation to the loans received by the latter from Claris Factor S.p.A. and MBFACTA S.p.A.. For additional details, reference should be made to note 20 - "*Other current and non-current liabilities*".

32 Related Party Transactions

Related parties are recognized in accordance with IAS 24. They are mainly of a commercial and financial nature and are conducted under normal market terms and conditions.

The transactions with related parties described below result in benefits arising from the use of common services and shared competencies, Group-level synergies and common policy and strategy in financial matters. In particular, in 2018 and 2017, related party transactions were entered into in the following areas:

- purchase and sale of green coffee;
- provision of professional and other services;
- issue of loans and guarantees; and
- management of shared services.

The Group has entered into transactions with the following related parties:

- entities which are controlled directly or indirectly by MZ Industries or Mr. Massimo Zanetti ("**Entities under Common Control**");
- joint ventures and associates ("**JV and Associates**"); and
- Group directors with strategic responsibilities and members of the Board of Directors ("**Key Management**").

The following table shows the income statement effects of related party transactions in 2018 and 2017, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as at December 31, 2018 and 2017.

(in thousands of Euro)	Entities under Common Control	JV and associates	Key Management	Total related parties	Financial statements line item	Percentage of total
Impact of transactions on income statement						
Revenue						
For the year ended December 31, 2018	74	415	-	**489**	891,203	**0.1%**
For the year ended December 31, 2017	83	1,133	-	**1,216**	956,065	**0.1%**
Purchases of raw, ancillary, and consumable materials and goods						
For the year ended December 31, 2018	158,028	1,100	-	**159,128**	502,407	**31.7%**
For the year ended December 31, 2017	178,877	8,425	-	**187,302**	558,693	**33.5%**
Purchases of services, leases and rentals						
For the year ended December 31, 2018	632	1,281	-	**1,913**	174,125	**1.1%**
For the year ended December 31, 2017	467	619	-	**1,085**	183,140	**0.6%**
Personnel costs						
For the year ended December 31, 2018	-	-	6,755	**6,755**	142,316	**4.7%**
For the year ended December 31, 2017	-	-	6,215	**6,215**	145,640	**4.3%**
Finance income						
For the year ended December 31, 2018	-	13	-	**13**	337	**3.9%**
For the year ended December 31, 2017	-	8	-	**8**	299	**2.7%**
Finance costs						
For the year ended December 31, 2018	1,227	-	-	**1,227**	7,596	**16.2%**
For the year ended December 31, 2017	1,298	-	-	**1,298**	8,295	**15.6%**
Impact of transactions on statement of financial position						
Trade receivables						
As at December 31, 2018	28	77	-	**105**	120.832	**0.1%**
As at December 31, 2017	145	83	-	**228**	123.405	**0.2%**
Other non-current assets						
As at December 31, 2018	77	360	-	**437**	6,574	**6.6%**
As at December 31, 2017	-	240	-	**240**	13,669	**1.8%**
Other current assets						
As at December 31, 2018	2	86	-	**88**	15,572	**0.6%**
As at December 31, 2017	-	-	-	**-**	18,195	**0.0%**
Trade payables						
As at December 31, 2018	44,678	144	-	**44,822**	144,292	**31.1%**
As at December 31, 2017	36,823	80	-	**36,903**	139,329	**26.5%**

The following table shows details of commitments with related parties at December 31, 2018 and 2017:

(in thousands of Euro)	Controlling Parties	Entities under Common Control	JV and associates	Key Management	Total related parties	Total	Percentage of total
Commitments							
As at December 31, 2018	-	89,397	-	-	**89,397**	190,992	**46.8%**
As at December 31, 2017	-	73,285	-	-	**73,285**	211,639	**34.6%**

Entities under Common Control

The following table shows the income statement effects of transactions with Entities under Common Control for 2018 and 2017, as well as the statement of financial position balances resulting from transactions with Entities under Common Control by financial statement line item at December 31, 2018 and 2017:

(in thousands of Euro)	**Cofiroasters SA**	**Other companies *Green Coffee***	**Doge SpA**	**Hotel Cipriani**	**Other**	**Total entities under common control**	**Financial statements line item**	**Percentage of total**
Impact of transactions on income statement								
Revenue								
For the year ended December 31, 2018	2	14	18	4	36	**74**	891,203	**0.0%**
For the year ended December 31, 2017	3	17	18	9	36	**83**	956,065	**0.0%**
Purchases of raw, ancillary, and consumable materials and goods								
For the year ended December 31, 2018	149,322	8,706	-	-	-	**158,028**	502,407	**31.5%**
For the year ended December 31, 2017	166,896	11,981	-	-	-	**178,877**	558,693	**32.0%**
Purchases of services, leases and rentals								
For the year ended December 31, 2018	181	3	81	55	312	**632**	174,125	**0.4%**
For the year ended December 31, 2017	-	2	81	30	354	**467**	183,140	**0.3%**
Finance costs								
For the year ended December 31, 2018	1,227	-	-	-	-	**1,227**	7,596	**16.2%**
For the year ended December 31, 2017	1,298	-	-	-	-	**1,298**	8,295	**15.6%**
Impact of transactions on statement of financial position								
Trade receivables								
As at December 31, 2018	-	-	14	14	-	**28**	120,832	**0.0%**
As at December 31, 2017	20	2	29	94	-	**145**	123,405	**0.1%**
Other non-current assets								
As at December 31, 2018	-	-	-	77	-	**77**	6,574	**1.2%**
As at December 31, 2017	-	-	-	-	-	**-**	13,669	**0.0%**
Other current assets								
As at December 31, 2018	-	2	-	-	-	**2**	15,572	**0.0%**
As at December 31, 2017	-	-	-	-	-	**-**	18,195	**0.0%**
Trade payables								
As at December 31, 2018	42,708	1,969	-	1	-	**44,678**	144,292	**31.0%**
As at December 31, 2017	34,763	2,058	-	2	-	**36,823**	139,329	**26.4%**

The following table shows details of the Group's commitments with Entities under Common Control at December 31, 2018 and 2017, as well as their impact on the related financial statements item:

(in thousands of Euro)	**Cofiroasters SA**	**Total Entities under Common Control**	**Total**	**Percentage of total**
Commitments				
As at December 31, 2018	89,397	**89,397**	190,992	**46.8%**
As at December 31, 2017	73,285	**73,285**	211,639	**34.6%**

Cofiroasters SA and other green coffee companies

(a) Purchase of green coffee from Cofiroasters SA

Cofiroasters SA purchases green coffee from producers and sells it to both to Group entities and to other customers (mainly through purchase and sale on the New York and London coffee commodity markets) and organises the transport of green coffee from production locations to destination ports or directly to roasting plants.

Group purchases of green coffee from Cofiroasters SA are based on individual orders placed by individual companies as required by the "*European contract for Coffee*" as adopted by the *European Coffee Federation*.

In 2016, in order to harmonise the different payment terms agreed in the past between certain subsidiaries and Cofiroaster SA, the Group renegotiated payment terms with the latter making them the same for all group companies.

Group purchases of green coffee from related parties account for raw material costs included in "Purchases of raw, ancillary, and consumable materials and goods" totalling Euro149,322 thousand in 2018 (Euro 166,896 thousand in 2017).

(b) Commitments to purchase green coffee from Cofiroasters SA

In order to mitigate risks relating to the price of green coffee, Group entities make forward purchases of green coffee thereby fixing the price of future purchases. Commitments to purchase green coffee from Cofiroasters SA not recognised in the financial statements at December 31, 2018 totalled Euro 89,397 thousand (Euro 73,285 thousand at December 31, 2017).

JV and Associates

In 2018, through its subsidiary Massimo Zanetti Beverage USA Inc., the Group performed the following transactions with the associate Club Coffee:

- sale of finished goods for Euro 222 thousand (Euro 915 thousand in 2017);
- purchases classified under "Purchases of raw, ancillary, and consumable materials and goods" for an amount of Euro 1,081 thousand (Euro 8,425 thousand in 2017);

Key Management

Key Management include members of the Company's Board of Directors who also carry out executive roles within other Group companies and the managers with strategic responsibilities who meet the relevant definition of the Code of Conduct.

Key Management compensation amounted to Euro 6,755 thousand and Euro 6,215 thousand in 2018 and 2017, respectively.

33 Subsequent events

- On February 1, 2019 the Group has finalized, through its Australian subsidiary the acquisition of the business and asset of a group of companies based in Melbourne known as "The Bean Alliance Group". Founded in Melbourne in 1981, The Bean Alliance enjoys a premium position and is characterized by the quality of the main brands. In just a few years, The Bean Alliance has been able to build a significant reputation in the Australian market, as confirmed by the many awards and certifications obtained (such as fairtrade and organic). The related products are distributed in the main domestic retailer chains and in the local roasted premium channel for café chains. In the fiscal year ended June 30, 2018 The Bean Alliance revenues reached AUD 24.5 million and normalized EBITDA was AUD 3.0 million. The Bean Alliance is based in Melbourne, where it has approximately 60 employees and a factory (roasting plant). The acquisition price is AUD 24.0 million with net financial position equal to zero. Furthermore, the agreement provides for a potential earn-out to be paid in three annual instalments, starting from 31 January 2020, should the specific annual qualitative and quantitative targets agreed be achieved.
- On February 11, 2019 Massimo Zanetti Beverage Iberia has completed the acquisition of the Portuguese company Cafés Nandi SA.With its headquartes in Amaodora, near to Lisbon, Cafès Nandi has a modern and efficient plant, near the production site of Massimo Zanetti Beverage Iberia, this will enable the Group to double the current production capacity of the Portuguese plant, in order to satisfy the increasing demand in Europe, in particular for single serves. Furthermore with the acquisition of Cafés Nandi, which operates in the Food service segment with the Brand Nandi, Massimo Zanetti Beverage Ibera will increase its presence in Food Service channel in Portugal.
- Within the scope of the ordinary fund raising activities, the Group entered into a medium-to-long term loan agreement with Monte dei Paschi di Siena in February 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2026;

- Within the scope of the ordinary fund raising activities, the Group entered into a medium-to-long term loan agreement with Credito Valtellinese in February 2019 for an overall amount of Euro 15,000 thousand reaching maturity in 2026;

Appendix 1 – List of Companies included in the Consolidated Financial Statements:

Company	Registered office	Reporting date	Share capital		Percentage held as at	
			Currency	Amount (000)	31 December 2018	31 December 2017
Massimo Zanetti Beverage S.A.	Ginevra	December 31	CHF	192,900	100%	100%
Segafredo Zanetti S.p.A.	Bologna	December 31	EUR	38,800	100%	100%
La San Marco S.p.A.	Gorizia	December 31	EUR	7,000	90%	90%
Segafredo Zanetti Sarl	Ginevra	December 31	CHF	20	100%	100%
Segafredo Zanetti Argentina S.A.	Buenos Aires	December 31	ARS	4,913	100%	100%
Segafredo Zanetti Australia Pty Ltd.	Sydney	December 31	AUD	4,400	100%	100%
Segafredo Zanetti Austria Gmbh	Salisburgo	December 31	EUR	727	100%	100%
Segafredo Zanetti Belgium S.A.	Bruxelles	December 31	EUR	3,892	100%	100%
Segafredo Zanetti (Brasil) Com. distr. de Cafè S.A.	Belo Horizonte	December 31	BRL	20,184	100%	100%
Segafredo Zanetti Chile S.A.	Santiago	December 31	CLP	25,000	100%	100%
Segafredo Zanetti Coffee System S.p.A.	Treviso	December 31	EUR	6,000	100%	100%
Segafredo Zanetti CR spol.sro	Praga	December 31	CSK	9,300	100%	100%
Segafredo Zanetti Deutschland Gmbh	Monaco	December 31	EUR	1,534	100%	100%
Segafredo Zanetti Espresso Worldwide Ltd.	Ginevra	December 31	CHF	30,000	98%	98%
Segafredo Zanetti Espresso Worldwide Japan Inc.	Tokyo	December 31	YEN	100,000	98%	98%
Segafredo Zanetti France S.A.S.	Rouen	December 31	EUR	8,500	100%	100%
Segafredo Zanetti Hellas S.A.	Atene	December 31	EUR	950	100%	100%
Segafredo Zanetti Hungaria KFT	Budapest	December 31	HUF	46,630	100%	100%
Tiktak/Segafredo Zanetti Nederland BV	Groningen	December 31	EUR	18	100%	100%
Segafredo Zanetti Poland Sp.z.o.o.	Bochnia	December 31	PLN	47,615	100%	100%
Segafredo Zanetti SR Spol S.r.o.	Bratislava	December 31	EUR	200	100%	100%
Segafredo Zanetti Trgovanje s kavo. d.o.o.	Ljubljana	December 31	EUR	651	100%	100%
Brodie Melrose Drysdale & CO Ltd.	Edimburgo	December 31	GBP	244	100%	100%
Brulerie des Cafés Corsica SAS	Ajaccio	December 31	EUR	152	100%	100%
Distribuidora Cafè Montaña S.A.	San Josè	December 31	CRC	304,010	100%	100%
El Barco Herrumdrado S.A.	San Josè	December 31	CRC	10	n.a.	100%
Massimo Zanetti Beverage USA Inc.	Suffolk	December 31	USD	73,641	100%	100%
Meira Eesti Oü	Tallin	December 31	EUR	15	100%	100%
Meira Oy Ltd.	Helsinki	December 31	EUR	1,000	100%	100%
Puccinos Worldwide Ltd	Edimburgo	December 31	GBP	0	100%	100%
Massimo Zanetti Beverage Mexico SA de CV (*)	Mazatlán	December 31	MXN	1,806	50%	50%
MZB Cafes USA Inc	Suffolk	December 31	USD	0	100%	100%
Kauai Coffee Company LLC	Hawaii	December 31	USD	0	100%	100%
Massimo Zanetti Beverage USA Food Service LLC	Wilmington	December 31	USD	0	100%	100%
Segafredo Zanetti New Zealand Ltd	Auckland	December 31	NZD	0	100%	100%
Segafredo Zanetti Croatia d.o.o.	Zagreb	December 31	HRK	4,850	100%	100%
Massimo Zanetti Beverage Vietnam Company Ltd	Ben Cat district - Binh Duong	December 31	VND	21,000,000	100%	100%
Segafredo Zanetti (Thailand) Ltd	Bangkok	December 31	THB	15,300	100%	100%
Boncafe International Pte Ltd	Singapore	December 31	SGD	18,710	100%	100%
Boncafe (Cambodia) Ltd	Phnom Penh	December 31	KHR	108,000	100%	100%
Boncafe (M) Sendirian Berhad	Kuala Lumpur	December 31	MYR	200	100%	100%
Six Degrees Café Pte Ltd	Singapore	December 31	SGD	0	100%	100%
BeanToCup (Thailand) Ltd	Bangkok	December 31	THB	4,000	100%	100%
Boncafe Middle East Co LLC	Dubai	December 31	AED	300	100%	100%
Boncafe (Thailand) Ltd	Bangkok	December 31	THB	150,000	100%	100%
Massimo Zanetti Beverage (Thailand) Ltd	Bangkok	December 31	THB	30,000	100%	100%
Boncafe (Hong Kong) Ltd	Hong Kong	December 31	USD	500	100%	100%
Segafredo Zanetti Grandi Eventi S.r.l.	Bologna	December 31	EUR	20	100%	100%
Massimo Zanetti Beverage Services SRL (*)	Municipiul Brasov	December 31	RON	1	51%	51%
Boncafe Vietnam Company Ltd	Thuan An	December 31	VND	12,268,000	100%	100%
Massimo Zanetti Beverage USA (Canada), Inc.	Suffolk	December 31	USD	0	100%	100%
Massimo Zanetti Beverage Canada Investment ULC	Vancouver	December 31	CAD	0	100%	100%
Club Coffee LP (*)	Toronto	April 25	CAD	4,000	15%	15%
Massimo Zanetti Beverage Ibéria S.A.	Lisbona	December 31	EUR	40,000	100%	100%
Virtus pallacanestro Bologna SSD a.r.l. (*)	Bologna	June 30	EUR	2,901	37.09%	40%
PT Bon cafe Indonesia	Jakarta	December 31	IDR	2,525,000	67%	67%
Shenzhen Boncafe Company Ltd	Shenzhen	December 31	USD	200	100%	n.a.
Bean Alliance Group PTY Ltd	Melbourne	December 31	AUD	3,000	100%	n.a.

(*) Consolidated with equity method

Consolidated Income Statement in accordance with Consob Resolution no. 15519 of July 27, 2006

	For the year ended December 31,			
(in thousands of Euro)	**2018**	***of which related parties***	**2017**	***of which related parties***
Revenue	891,203	489	956,065	1,216
Other income	6,954		8,560	
Purchases of raw, ancillary, and consumable materials and goods	(502,407)	(159,128)	(558,693)	(187,302)
Purchases of services, leases and rentals	(174,125)	(1,913)	(183,140)	(1,085)
Personnel costs	(142,316)	(6,755)	(145,640)	(6,215)
Other operating costs	(6,314)		(6,711)	
Amortization, depreciation and impairment	(36,605)		(38,694)	
Operating profit	**36,390**		**31,747**	
Finance income	337	13	299	8
Finance costs	(7,596)	(1,227)	(8,295)	(1,298)
Share of losses of companies accounted for using the equity method	(879)		(787)	
Profit before tax	**28,252**		**22,964**	
Income tax expense	(8,355)		(4,854)	
Profit for the year	**19,897**		**18,110**	
Profit attributable to:				
Non-controlling interests	*105*		*174*	
Owners of the parent	*19,792*		*17,936*	
	-		-	
Basic and diluted earnings per share (in Euro)	**0.58**		**0.52**	

Consolidated Statement of Financial Position in accordance with Consob Resolution no. 15519 of July 27, 2006

	As at December 31,			
(in thousands of Euro)	**2018**	***of which related parties***	**2017**	***of which related parties***
Intangible assets	182,799		183,231	
Property, plant and equipment	215,127		212,830	
Investment properties	4,771		4,887	
Investments in joint ventures and associates	10,404		9,616	
Non-current trade receivables	2,542		3,076	
Deferred tax assets	11,828		10,244	
Non-current contract assets	6,781		-	
Other non-current assets	6,574	437	13,669	240
Total non-current assets	**440,826**		**437,553**	
Inventories	131,649		127,997	
Trade receivables	120,832	105	123,405	228
Income tax assets	3,271		1,975	
Current contract assets	3,759		-	
Other current assets	15,572	88	18,195	-
Cash and cash equivalents	93,491		89,594	
Total current assets	**368,574**		**361,166**	
Total assets	**809,400**		**798,719**	
Share capital	34,300		34,300	
Other reserves	99,396		98,162	
Retained earnings	183,069		166,443	
Total equity attributable to owners of the Parent	**316,765**		**298,905**	
Non-controlling interests	1,883		1,977	
Total equity	**318,648**		**300,882**	
Non-current borrowings	175,300		204,145	
Employee benefits	8,822		8,987	
Other non-current provisions	3,190		2,986	
Deferred tax liabilities	26,863		22,895	
Non-current contract liabilities	483		-	
Other non-current liabilities	2,539		3,047	
Total non-current liabilities	**217,197**		**242,060**	
Current borrowings	96,637		78,731	
Trade payables	144,292	44,822	139,329	36,903
Income tax liabilities	1,664		1,433	
Current contract liabilities	946		-	
Other current liabilities	30,016		36,284	
Total current liabilities	**273,555**		**255,777**	
Total liabilities	**490,752**		**497,837**	
Total equity and liabilities	**809,400**		**798,719**	

Consolidated Statement of Cash Flow in accordance with Consob Resolution no. 15519 July 27, 2006

	For the year ended December 31,			
(in thousands of Euro)	**2018**	***of which related parties***	**2017**	***of which related parties***
Profit before tax	**28,252**		**22,964**	
Adjustments for:				
Amortization, depreciation and impairment	36,605		38,694	
Provisions for employee benefits and other charges	1,102		561	
Net Finance expenses	7,259	1,214	7,996	1,290
Other non-monetary items	(1,048)		3,667	
Net cash generated from operating activities before changes in net working capital	**72,170**		**73,882**	
Changes in inventories	(1,378)		(1,811)	
Changes in trade receivables	(832)	123	(8,699)	131
Changes in trade payables	2,245	7,645	23,011	(9,032)
Changes in other assets/liabilities	(2,775)	(285)	(1,351)	(120)
Payments of employee benefits	(776)		(623)	
Interest paid	(5,688)	(1,227)	(6,477)	(1,298)
Income tax paid	(8,340)		(6,029)	
Net cash generated from operating activities	**54,626**		**71,903**	
Acquisition of subsidiary, net of cash acquired	-		(2,583)	
Purchase of property, plant and equipment	(29,806)		(35,394)	
Purchase of intangible assets	(2,784)		(1,222)	
Proceeds from sale of property, plant and equipment	1,005		1,699	
Changes in financial receivables	18		6	
Investments in joint ventures and associates	(1,200)		(777)	
Changes in financial receivables	(1,528)		1,575	
Interest received	165		143	
Net cash used in investing activities	**(34,130)**		**(36,553)**	
Proceeds from long-term borrowings	15,360		67,433	
Repayment of long-term borrowings	(24,235)		(52,257)	
Increase / (decrease) in short-term borrowings	(3,156)		1,811	
Dividends paid	(5,999)		(5,305)	
Net cash (used)/generated from financing activities	**(18,030)**		**11,682**	
Exchange gains/(losses) on cash and cash equivalents	1,431		(2,605)	
Net increase in cash and cash equivalents	**3,897**		**44,427**	
Cash and cash equivalents at the beginning of the period	89,594		45,167	
Cash and cash equivalents at the end of the period	**93,491**		**89,594**	

Statement on the consolidated financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. We, the undersigned, Massimo Zanetti, in his capacity as Chairman and Chief Executive Officer, and Leonardo Rossi, in his capacity as Manager in Charge of the Financial Reports of Massimo Zanetti Beverage Group S.p.A., hereby certify, pursuant to the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998,:

   • the adequacy in relation to the company features and
   • the effective application

   of the administrative and accounting procedures for preparing the consolidated financial statements, for the year ended December 31, 2018.

2. The assessment of the adequacy of the administrative and accounting procedures used in preparing the consolidated financial statements, for the year ended December 31, 2018 was based on a process defined by Massimo Zanetti Beverage Group S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally- accepted reference framework.

3. The undersigned further certify that:

   3.1 the consolidated financial statements:

   a) have been prepared in accordance with applicable International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) No. 1606/2002 of European Parliament and Council on 19 July 2002;

   b) reflect the accounting books and records; and

   c) provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and the companies included in the consolidation area.

   3.2 the Report on Operations includes a reliable analysis of the significant events that occurred during the financial year and the impact of such events on the issuer and the group of companies included in the consolidation area.

Villorba (TV), February 28, 2019

Massimo Zanetti	Leonardo Rossi
Chairman and Chief Executive Officer	Manager in Charge of the Company's Financial Reports

Auditors' Report in accordance with Articles 14 and 16 of Legislative Decree n° 39 of January 27, 2010.

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Massimo Zanetti Beverage Group SpA (the Group), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income and the statement of changes in equity, the statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Massimo Zanetti Beverage Group SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverable amount of indefinite-lived intangible assets *Note 7 to the consolidated financial statements* The consolidated financial statements of Massimo Zanetti Beverage Group SpA include indefinite-lived intangible assets, which are not amortized but are tested for impairment at least annually. They comprise goodwill for an amount of Euro 115,702 thousand. For the purposes of verifying the recoverability of indefinite-lived intangible assets, the Group's net assets were allocated to the following cash-generating units (CGUs): Americas, Northern Europe, Southern Europe and Asia Pacific and Cafès. For the purposes of determining the recoverable amount of each CGU to which the goodwill is allocated, management determined the value in use applying the Discounted Cash Flow method. Based on this method the recoverable amount (enterprise value) of an entity or CGU is the sum of the present value of the estimated future cash flows for the explicit years (2019-2021) and of the terminal value determined by applying to the last year of the plan a long-term growth rate ("g-rate") that is specific to each CGU and represents the expected long-term inflation rate in the countries in which the CGU operates. The recoverable amount of each CGU to which the goodwill is allocated, has been compared to the carrying amount determined as the sum of the assets and liabilities attributable to the CGU including goodwill. As part of our audit of the consolidated financial statements as at 31 December 2018, we focused on this area in view of the materiality of the amounts involved and the fact that the recoverability of these values was verified by the	As part of our audit of the consolidated financial statements as of 31 December 2018, we performed the following procedures. We obtained the impairment tests prepared by management with the assistance of an independent expert and approved by the board of directors of Massimo Zanetti Beverage Group SpA. We analysed the reasonableness of the management's assumptions about the identification of the cash-generating units and about the allocation of the goodwill and the indefinite-lived intangibles. We evaluated the reasonableness of the estimated future cash flows used in the impairment test, specifically verifying their consistency with the projections in the business plan submitted to the board of directors on 22 February 2019 and the reasonableness of the assumptions used, in light of the past results of each CGU and the Group. With the support of valuation specialists from the PwC network, we verified that the methodology used was consistent with valuation practice and in particular with the requirements of International Accounting Standard IAS 36 adopted by the European Union. In addition, we assessed the key valuation parameters for reasonableness. With specific reference to the WACC calculation method, we verified that WACC values had been determined according to common best practices and based on market

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
directors through estimations of the future cash flows for the Group and for each CGU. The discount rates applied to the future cash flows (weighted average cost of capital – "WACC") were also estimated.	rates. Similarly, we assessed the consistency of the calculations of long-term growth rates with the requirements of the International Financial Reporting Standards adopted by the European Union. We verified the mathematical accuracy of the calculations underlying the test and the net invested capital values of the CGUs identified as of 31 December 2018 and used for comparisons with the values in use.
Purchases of green coffee from related parties *Note 32 to the consolidated financial statements* The Group purchases green coffee, the main raw material for the production of the finished good, from companies under common control of the majority shareholder Massimo Zanetti Industries SA. In particular, the Group's purchases of green coffee from Cofiroasters SA and other companies belonging to the Green Coffee Group in the year 2018 accounted for raw material costs included in "Purchases of raw, ancillary, and consumable materials and goods" totalling Euro 158,028 thousand, while outstanding payables to those companies, included in " Trade payables ", amounted to Euro 44,678 thousand as at 31 December 2018. Cofiroasters SA purchases green coffee from producers, sells it to both Group entities and other customers, and organizes the transport of green coffee from production locations to destination ports or directly to roasting plants. The Group's purchases of green coffee from Cofiroasters SA are based on individual orders placed by individual companies and are governed by the "European contract for Coffee" adopted by the European Coffee Federation. In view of the materiality of these transactions, which accounted for around 32% of total	As part of our audit of the consolidated financial statements as at 31 December 2018, we performed the following procedures. We understood and evaluated the controls performed by the Company in order to conclude that transactions with related parties are conducted under normal market terms and conditions. In particular, we obtained and discussed the reports of the Internal Audit function on this topic, which include a comparison of the prices charged by Cofiroasters SA to the Group with those charged by other possible third party suppliers. We examined the minutes of the governance bodies, which report the procedures performed and the conclusions reached and included in the disclosures provided in the notes to the financial statements. We also requested a specific written representation to confirm those conclusions. We verified that the margin (revenues less cost of goods sold) of Cofiroasters SA, as reported in the latest available financial reporting, was maintained within the range that the Group believes ensures the

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
purchases of raw, ancillary, and consumable materials and goods, the verification of the disclosure concerning the fact that such purchases are conducted under normal market terms and conditions was considered a key matter in the audit of the 2018 consolidated financial statements.	application of a selling price under normal market terms and conditions. We also had discussions with the management of the related party in order to confirm that the margins of Cofiroasters SA relating to the year 2018 were in line with those of the previous year.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Massimo Zanetti Beverage Group SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

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Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 31 March 2015, the shareholders of Massimo Zanetti Beverage Group SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2015 to 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Massimo Zanetti Beverage Group SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Massimo Zanetti Beverage Group SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

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Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Massimo Zanetti Beverage Group SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Treviso, 14 March 2019

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018

Income Statement

(in Euro)	Note	For the year ended December 31, 2018	2017
Revenue	**16**	10,621,902	8,143,255
Other income		45,282	42,608
Purchases of raw, ancillary, and consumable materials and goods		(35,193)	(53,761)
Purchases of services, leases and rentals	**17**	(2,674,723)	(2,093,696)
Personnel costs	**18**	(5,972,926)	(5,452,577)
Other operating costs	**19**	(168,801)	(200,101)
Amortization, depreciation and impairment	**20**	(737,852)	(707,732)
Operating profit		**1,077,689**	**(322,004)**
Finance income	**21**	8,862,883	9,585,224
Finance costs	**21**	(2,026,078)	(3,684,503)
Profit (loss) before tax		**7,914,494**	**5,578,717**
Income tax expense	**22**	(126,682)	1,142,179
Profit for the year		**7,787,812**	**6,720,896**

Statement of Comprehensive Income

(in Euro)	Note	For the year ended December 31, 2018	For the year ended December 31, 2017
Profit for the year		**7,787,812**	**6,720,896**
Remeasurements of employee benefit obligations	**14**	(4,270)	(12,276)
Items that will not be reclassified to profit or loss		**(4,270)**	**(12,276)**
Total comprehensive income for the year		**7,783,542**	**6,708,620**

Statement of Financial Position

(in Euro)	Note	As at December 31, 2018	2017
Intangible assets	**5**	1,944,031	681,683
Property, plant and equipment	**6**	13,271,996	13,526,130
Investments in subsidiaries	**8**	262,369,702	259,369,702
Deferred tax assets	**9**	3,888,750	3,923,324
Non-current financial receivables	**7**	33,924,782	41,524,114
Total non-current assets		**315,399,261**	**319,024,953**
Income tax assets		1,605,552	1,456,971
Current financial receivables	**7**	8,160,349	7,477,390
Other current assets	**10**	1,994,842	1,510,563
Cash and cash equivalents	**11**	33,213,099	32,327,936
Total current assets		**44,973,842**	**42,772,860**
Total assets		**360,373,103**	**361,797,813**
Share capital		34,300,000	34,300,000
Other reserves		103,266,895	108,761,850
Retained earnings		22,515,239	15,067,742
Total equity	**12**	**160,082,134**	**158,129,592**
Non-current borrowings	**13**	144,681,900	168,215,263
Employee benefits	**14**	353,828	300,991
Deferred tax liabilities	**9**	29,859	30,941
Other non-current liabilities	**15**	1,041,218	1,114,959
Total non-current liabilities		**146,106,805**	**169,662,154**
Current borrowings	**13**	47,463,030	28,090,225
Income tax liabilities		97,840	-
Trade payables		1,699,694	797,883
Other current liabilities	**15**	4,923,600	5,117,959
Total current liabilities		**54,184,164**	**34,006,067**
Total liabilities		**200,290,969**	**203,668,221**
Total equity and liabilities		**360,373,103**	**361,797,813**

Statement of Cash Flows

(in Euro)	Note	For the year ended December 31, 2018	2017
Profit (loss) before tax		7,914,494	5,578,717
Adjustments for:			
Amortization, depreciation and impairment	**20**	737,852	707,732
Net finance income	**21**	(6,836,806)	(5,900,721)
Other non-monetary items		54,425	47,399
Net cash generated/(used in) from operating activities before changes in net working capital		**1,869,965**	**433,127**
Changes in trade payables		901,811	(76,160)
Changes in other assets/liabilities	**10-15**	(933,002)	202,946
Payments of employee benefits	**14**	(15,205)	(26,983)
Interest paid		(2,394,637)	(2,314,880)
Income tax paid		10,203	-
Net cash used in operating activities		**(560,865)**	**(1,781,950)**
Investments in subsidiaries	**8**	(3,000,000)	(1,000,000)
Dividends received	**21**	7,592,885	8,235,045
Purchase of intangible assets	**5**	(1,444,840)	(378,354)
Purchase of property, plant and equipment	**6**	(301,226)	(205,732)
Interest received		1,273,039	1,466,927
Changes in financial receivables	**7**	7,317,729	1,921,876
Net cash generated from/(used in) investing activities		**11,437,587**	**10,039,762**
Proceeds from long-term borrowings	**13**	15,000,000	30,000,000
Repayment of long-term borrowings	**13**	(16,316,493)	(19,590,736)
Decrease in short-term loans	**13**	(2,844,066)	110,088
Dividends paid	**12**	(5,831,000)	(5,145,000)
Net cash (used)/generated from financing activities		**(9,991,559)**	**5,374,352**
Total net increase in cash and cash equivalents		**885,163**	**13,632,164**
Cash and cash equivalents at the beginning of the year	**11**	32,327,936	18,695,772
Cash and cash equivalents at the end of the year		**33,213,099**	**32,327,936**

Statement of Changes in Equity

(in Euro)	Share capital	Other reserves	Retained earnings	Total equity
As at December 31, 2016	**34,300,000**	**113,496,408**	**8,769,564**	**156,565,972**
Profit for the year	-	-	6,720,896	6,720,896
Remeasurements of employee benefit obligations	-	-	(12,276)	(12,276)
Total comprehensive income for the year	**-**	**-**	**6,708,620**	**6,708,620**
Reclassifications	-	410,442	(410,442)	-
Dividend distribution	-	(5,145,000)	-	**(5,145,000)**
As at December 31, 2017	**34,300,000**	**108,761,850**	**15,067,742**	**158,129,592**
Profit for the year		-	7,787,812	7,787,812
Remeasurements of employee benefit obligations		-	(4,270)	(4,270)
Total comprehensive income for the year	**-**	**-**	**7,783,542**	**7,783,542**
Reclassifications		336,045	(336,045)	-
Dividend distribution		(5,831,000)	-	**(5,831,000)**
As at December 31, 2018	**34,300,000**	**103,266,895**	**22,515,239**	**160,082,134**

Notes to the Separate Financial Statements

1 General information

Massimo Zanetti Beverage Group S.p.A. (the "**Company**" or the "**Parent**"), a company established and domiciled in Italy, is organized and governed under the laws of the Republic of Italy. The registered offices of the Company are located in Viale Felissent, Villorba (Treviso). The Company is controlled by Massimo Zanetti Industries S.A. ("**MZ Industries**"), based in Luxembourg.

The Company and its subsidiaries (the "**Group**") operate in the coffee business. In particular, the Group manages numerous well-known international brands and a vast assortment of regional products, including coffee, tea, cocoa and spices.

The Company has been listed on the STAR segment of the Mercato Telematico Azionario - MTA (screen-based stock exchange) managed and organised by Borsa Italiana S.p.A. (Italian Stock Exchange) since June 3, 2015.

The separate financial statements were audited by PricewaterhouseCoopers SpA, who was appointed as independent auditor of the Company and its most significant subsidiaries.

2 Accounting policies

The principal accounting policies and criteria adopted in preparing the separate financial statements are described below.

2.1. Basis of Preparation

The separate financial statements as at and for the year ended December 31, 2018 ("**Separate Financial Statements**"), approved by the Company's Board of Directors on February 28, 2019, have been prepared on a going concern basis. Management has confirmed the absence of any financial, operational or other indicator that might call into question the ability of the Company to meet its obligations in the foreseeable future and, in particular, over the next twelve months. The approach adopted by the Company for the management of financial risks is discussed in Note 3 "*Management of financial risks*". below.

These Separate Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). In this context, IFRS means all the "International Financial Reporting Standards", all the "International Accounting Standards" (IAS), and all the interpretations of the "International Financial Reporting Interpretations Committee" (IFRIC), previously known as the "Standing Interpretations Committee" (SIC), that, at the date of approving the Separate Financial Statements, had been endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002. In particular, the IFRS have been applied consistently to all the periods presented in this document except as described in Note 2.3 *"Recently-issued Accounting Standards"*.

The Separate Financial Statements have been prepared and presented in Euro. Unless otherwise indicated, all amounts included in this document are stated in thousands of Euro.

Financial statement formats and related classification criteria adopted by the Company, in accordance with IAS 1 – *Presentation of Financial Statements* are as follows:

- the *statement of financial position* classifies assets and liabilities using the "current/non-current" criterion;
- the *income statement* classifies operating costs by nature;
- the *statement of comprehensive income* includes income and costs not recognised in the income statement for the year, as required or allowed by IFRS, such as changes in the hedging reserve, in the actuarial reserve and in the translation reserve;

- the *statement of cash flows* presents the cash flows generated by operating activities using the "indirect method".

The Separate Financial Statements have been prepared under the historical cost convention, except with regard to the measurement of financial assets and liabilities, where application of the fair value criterion is required.

2.2. Accounting Policies

A brief description is provided below of the accounting policies and principles adopted in preparing the Separate Financial Statements.

Property, plant and equipment

Property, plant and equipment are recorded at purchase or production cost and stated net of accumulated depreciation and any impairment adjustments. The residual values of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period. Purchase or production cost includes costs incurred directly to prepare property, plant and equipment for use, as well as any costs to be incurred to dismantle and remove the assets in line with contractual obligations that require that the assets be returned to their original condition or location. Finance costs directly attributable to the purchase, construction or production of an asset are capitalized and depreciated over the asset's useful life.

Maintenance costs and the costs of routine and/or cyclical repairs are charged directly to the income statement as incurred. Costs incurred for the expansion, modernization or improvement of owned or leased fixed assets are capitalized if they meet the requirements for separate classification as an asset or part of an asset. Improvements to leased assets are depreciated over the life of the lease contract or over the useful life of the asset in question, if shorter. If improvements can be considered as separate assets, they are depreciated over the expected useful life of the separate asset.

Depreciation is recognized monthly on a straight-line basis, using rates that depreciate property, plant and equipment over their useful lives. In those cases where assets include distinctly identifiable elements with significantly different useful economic lives, depreciation is calculated separately for each part in accordance with the component approach.

The estimated useful lives of the various categories of property, plant and equipment are as follows:

Property, plant and equipment	Useful life (in year)
Buildings	33
Light buildings	10
Furniture, fittings and equipment	8
Electronic office equipment	5
Audiovisual equipment	4
External fittings and equipment	13
Other equipment	6

The useful lives of property, plant and equipment are reviewed and updated at the end of each financial year, or more frequently when required.

Intangible assets

Intangible assets consist of identifiable, non-monetary items without physical form that are controllable and expected to generate future economic benefits. Such items are initially recorded at purchase and/or production cost, including any directly related costs incurred to prepare them for use. Any interest expenses incurred during and for the development of intangible assets are deemed part of their purchase cost.

Intangible assets with a finite useful life are recorded at cost, as described above, and stated net of accumulated amortization and any impairment adjustments.

Amortization commences when intangible assets become available for use and is charged on a straight-line basis over the asset's estimated residual useful economic lives.

Estimated useful economic lives for software and other intangible assets is 5 years.

Impairment of intangible assets and property, plant and equipment with a definite useful life.

At each reporting date, the Company assesses whether there are any indications of impairment of property, plant and equipment and intangible assets with a finite useful life. Both internal and external sources of information are considered for this purpose. Internal sources include obsolescence or physical deterioration of the asset, any significant changes in the use of the asset, and the economic performance of the asset with respect to expectations. External sources include the market value of the asset, changes in technology, markets or laws, trends in market interest rates and the cost of capital used to evaluate investments.

Where indicators of impairment are seen to exist, the recoverable value of the relevant assets are estimated and any impairment adjustments with respect to their carrying amounts are charged to the income statement. The recoverable value of an asset is represented by the greater of its fair value, net of disposal costs, and its value in use, which is defined as the present value of the estimated future cash flows deriving from the asset. When determining value in use, the expected future cash flows are discounted using a pre-tax rate that reflects the current market assessment of the cost of money, considering the length of the investment period and the specific risks associated with the asset. The recoverable value of assets that do not generate independent cash flows is determined with reference to the CGU to which such assets belong.

Impairment is charged to the income statement when the carrying amount of an asset, or the CGU to which it has been allocated, exceeds its recoverable value. Reductions in the value of a CGU are initially deducted from the carrying amount of any goodwill allocated to it, and then from the carrying amounts of the CGU's remaining assets in proportion to their carrying amounts, to the extent of their related recoverable value. If the conditions that gave rise to an impairment adjustment cease to exist, the carrying amount of the asset concerned is reinstated, by crediting the income statement with an amount equal to the net carrying amount that the asset would have had in the absence of impairment, net of depreciation.

Investments in subsidiaries

Investment in subsidiaries are recognised at their purchase or incorporation cost. In case of any impairment indicators, their recoverability is verified through the comparison between their carrying amount and the higher of their value in use that is determined by discounting prospective cash flows, where applicable, of the equity investment and the assumed sales value which is determined on the basis of recent transactions or market multiples. The portion of losses exceeding the carrying amount is recognised in a specific provision under liabilities to the extent that the Company states the existence of legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity. If the impaired investee shows a subsequent improvement in performance which leads to believe that the reasons for the impairment cease to exist, the equity investments are revalued to the extent of the impairment losses recognised in previous periods. Dividends from subsidiaries and associates are recognised in the income statement in the year in which they are resolved.

Finally, with reference to transactions between entities under common control, which are not governed by IFRS, either from the point of view of the purchaser/assignee or from that of the seller/assignor, the Company, considering this, recognises such transactions in accordance with the best Italian practices, recognising directly in equity any gain on the transfer or sale of its subsidiaries.

Receivables and other financial assets

Trade receivables and other financial assets arise during the Company's ordinary operations and are held to collect contractual cash flows that are solely payments of principal and interest in accordance with IFRS 9.

Therefore, these receivables are initially recorded at fair value and subsequently stated at amortised cost using the effective interest method, net of the allowance for impairment. They are classified as current assets, except in those cases where the contractual duration at the reporting date exceeds twelve months, in which case they are classified as non-current assets and recognised at their present value.

At each reporting date, trade receivables and other financial assets are tested for impairment.

When performing the test, in accordance with IFRS 9, the Company uses a financial asset impairment model whereby loss allowances are recognised based on expected losses. For impairment test purposes, the Company estimates credit losses on trade receivables over their entire life, using a simplified approach, and uses its historical credit loss experience, grouped in similar categories and adjusted to reflect specific forward-looking factors about the nature of the Company's receivables and the economic conditions.

Trade receivables are impaired when their recovery cannot be reasonably expected. The indicators of the impossibility to recover the receivables can be aksi tge creditor’s inability to agree on a repayment schedule with the Company and the inability to make contract payments for a significant period of time.

When an impairment indicator exists, the impairment loss is recognised in the income statement under “Amortisation, depreciation and impairment”.

Previous criteria for trade receivables impairment

Impairment losses on receivables are recognized in the financial statements when there is objective evidence that the Company will be unable to recover the amount contractually due from the counterparty.

Objective evidence includes such events as:
- significant financial difficulties of the counterparty;
- legal disputes with the debtor over the amount receivable; or
- probability that the debtor will declare bankruptcy or that other financial restructuring procedures will be initiated.

The amount of impairment is measured as the difference between the carrying amount of the asset and the present value of the related future cash flows and is recorded under “Amortization, depreciation and impairment” in the income statement. Unrecoverable receivables are derecognised from the statement of financial position and charged against the allowance for impairment. If, in later periods, the conditions that gave rise to an impairment loss cease to exist, the carrying amount of the asset concerned is reinstated to the net carrying amount that such asset would have had in the absence of impairment, using the amortized cost method.

Cash and cash equivalents

Cash and cash equivalents comprise cash and unrestricted bank deposits, as well as other forms of short-term investment with an original maturity of not more than three months. Bank overdrafts at the reporting date are reported as current borrowings within current liabilities in the statement of financial position.

Borrowings and other financial liabilities

Borrowings and other financial liabilities are initially recorded at fair value, net of directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. If there is a change in the estimate of expected cash flows, the value of the liabilities is remeasured to account for this change based on the present value of the new cash flows expected and the effective interest rate as initially determined. Borrowings and other financial liabilities are classified within current liabilities, except those with contractual maturities due beyond twelve months of the reporting date and those for which the Company has an unconditional right to defer payment for at least twelve months after that date.

Borrowings and other financial liabilities are recognized at the transaction date and are derecognized when settled and when the Company has transferred all the risks and expenses related to the instruments.

Derivative instruments

Derivative instruments are securities held for trading and accounted for at fair value through profit or loss, unless designated as hedging instruments, and are classified in current and non-current assets or liabilities.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value, with related transaction costs being charged to the income statement. Gains and losses deriving from changes in the fair value of interest rate derivatives are recognized in the income statement as finance income and finance costs in the period in which they are identified.

If the maturity of the hedged item exceeds twelve months, the fair value of derivatives used as hedging instruments is classified among other non-current assets or liabilities; if such maturity is less than twelve months, the fair value of the related hedging derivatives is classified among other current assets or liabilities. Derivatives not designated as hedging instruments are classified as either current or non-current assets or liabilities, depending on their contractual maturity.

Employee benefits

Short-term benefits comprise wages, salaries, related social security costs, payments in lieu of holiday and incentives in the form of bonuses payable within twelve months of the reporting date. These benefits are recorded as payroll costs in the period in which the work is performed.

In the case of defined benefit plans, such as that governing the termination indemnities due to employees in accordance with art. 2120 of the Italian Civil Code ("**TFR**"), the amount of the benefit is only quantifiable following termination of the employment relationship and is dependent upon factors such as age, length of service and level of remuneration; for this reason, the costs charged to the income statement for a given year are determined by actuarial calculations. The liability recognised for defined benefit plans corresponds to the present value of the obligation at the reporting date. The obligations under defined benefit plans are determined each year by an independent actuary, using the projected unit credit method. The present value of defined benefit plans is determined by discounting the future cash flows using an interest rate based on that of high-quality corporate bonds issued in Euro that takes into account the term of the pension plan concerned. The actuarial gains and losses deriving from adjustments in the total liability and the effect of changes in the actuarial assumptions are recognized in other comprehensive income.

With effect from January 1, 2007, Italian Law 2007 and the related decrees regarding implementation of the law, introduced significant changes to the TFR regulations, including the option for each employee to choose the destination of the accruing indemnity. In particular, employees may now allocate new TFR flows to alternative external pension plans or elect for them to be retained by the employer. If an external pension plan is chosen, an entity is only obliged to make defined contributions to such plan, and accordingly, from the aforementioned date the related new TFR flows are deemed to be payments to a defined contribution plan not subject to actuarial valuation.

Provisions for risks and charges

Provisions are recognised to provide for known or likely losses or liabilities, the timing and/or amount of which cannot be determined. Provisions are only recorded when there exists a present obligation, whether legal or constructive, for a future outflow of resources relating to past events, and when it is probable that such outflow will be required to settle the obligation. Provisions represent the best estimate of the expenditure required to settle the related obligation. The rate used to calculate the present value of the liability reflects market values and takes into account the specific risk associated with each liability.

In the case in which the effect of the time value of money is material and the settlement dates for the obligations can be reliably estimated, provisions are recorded at the present value of the expected future payments by applying a discount rate that reflects market conditions, the change in the time value of money, and the specific risks associated with the obligation. Provision increases due to changes in the time value of money are recognised as interest expense.

Obligations considered to be possible but not probable are disclosed in the note on contingent liabilities, however, no provision is made.

Trade payables and other liabilities

Trade payables and other liabilities are initially recorded at fair value, net of directly related charges, and subsequently measured at amortized cost using the effective interest method.

Revenue recognition

The Company's revenue mainly arises from operations with related parties and, in particular, management fees from the subsidiaries of the Group.

Under IFRS 15, the Company recognises revenue based on contracts with customers.

Revenue is recognised based on the Company's satisfaction of the so-called performance obligations as contractually agreed with the customer. The Company's contracts usually cover the sale of goods and services which can be identified separately. Consequently, they are recognised as distinct performance obligations.

Revenue is generally recognised when control over a product is passed to the customer. Indeed, revenue is mainly recognised upon transfer of control to the customer (i.e. over-time).

Revenue is measured at the transaction price, which is calculated based on the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding discounts and any taxes paid by customers to the tax authorities. The transaction price includes elements of variable consideration when it is probable that a significant revenue reversal will not take place after recognition.

Cost recognition

Costs are recognised when they relate to goods or services acquired or consumed during the year, or when allocated to the year on a systematic basis.

Taxation

Current taxes are provided for based on an estimate of taxable income, consistent with the tax regulations applicable to the Company.

The Group's Italian entities are members of a domestic tax group established pursuant to Decree 344/2003. This law recognises the combined taxable income of the Company entities that elected, on an optional basis, to join the tax group. In particular, the rules allow the tax group to net the tax results of the member entities (taxable income and losses for the consolidation period) for IRES purposes.

Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax base of an asset or liability and the related carrying amount, except for goodwill and the differences deriving from investments in subsidiaries when the Company has control over their reversal and it is likely that they will not reverse in the foreseeable future. Deferred tax assets, including those deriving from tax loss carry-forwards, are recognised, to the extent not offset by deferred tax liabilities, if it is probable that they will be recovered against future taxable income. Deferred tax assets and liabilities are determined using the tax rates, enacted or substantially enacted at the reporting date, expected to apply in the years in which the related temporary differences reverse or expire.

Current income taxes and the changes in deferred tax assets and liabilities are recognised as "Income tax expense" in the income statement, except for those taxes relating to items (other than profit for the year) included in the comprehensive income statement and those relating to amounts credited or charged directly to equity. In such cases, deferred taxes are recognised in the statement of comprehensive income and directly in equity. Deferred tax assets and liabilities are netted when they are applied by the same tax authorities, there is a legal right of offset and the net balance is likely to be settled.

Other taxes not linked to income, such as indirect taxes and other levies, are charged to the "Other operating costs" in the income statement.

2.3. Recently-Issued Accounting Standards

The following accounting standards, amendments and interpretations have been adopted by the Company with effect from January 1, 2018:

- *IFRS 15* - On May 24, 2014, the IASB published IFRS 15, which governs the recognition of revenue from contracts with customers. The new standard replaces IAS 18 “Revenue”, IAS 11 “Construction contracts” and the related interpretations. Specifically, under IFRS 15, revenue is recognised based on the following five-step model framework:

  6) identify the contract(s) with a customer;
  7) identify the performance obligations in the contract to transfer goods and/or services to a customer;
  8) determine the transaction price;
  9) allocate the transaction price to the performance obligations in the contract by reference to the standalone selling price of each good or service; and
  10) recognise revenue when (or as) the entity satisfies a performance obligation.

  Furthermore, IFRS 15 requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and related cash flows.

  IFRS 15, which was endorsed by the European Commission with Regulation (EU) no. 2016/1905 of September 22, 2016, is effective for annual periods beginning on or after January 1, 2018. The Company adopted this standard and the related amendments using the modified retrospective approach, taking any cumulative effects at January 1, 2018 to “Retained earnings” and without restating comparative balances.

  Management considered the effects of the application of the new standard on the Company's financial statements with respect to all types of revenue and concluded that there were no substantial and/or significant impacts on the accounting policy governing revenue recognition. Consequently, revenue recognition under IFRS 15 did not result in the recognition of a cumulative effect at January 1, 2018. However, it led to some reclassifications in the income statement and the statement of financial position, as described in detail in note *2.5 “Impacts arising from the application of new standards”*.

- *IFRS 9* - On July 24, 2014, the IASB completed the revision of the standard governing financial instruments with the publication of the final version of IFRS 9 - “Financial Instruments” (“IFRS 9”). The new provisions set out in IFRS 9:

  - change the classification and measurement requirements for financial assets;
  - incorporate a new expected loss impairment model which considers expected credit losses; and
  - change hedge accounting provisions.

  The new standard also requires additional disclosure and presentation changes.

  IFRS 9, which was endorsed by the European Commission with Regulation (EU) no. 2016/2067 of November 22, 2016, is effective for annual periods beginning on or after January 1, 2018.

  The Company has adopted IFRS 9 from January 1, 2018 and applied the practical expedients provided for by the standard without restating comparative balances.

  The Company analysed its financial assets and liabilities and essentially concluded that there are no significant impact from the adoption of the new standard from January 1, 2018.

- *Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions".* This amendment, which was published by the IASB on June 20, 2016, clarifies the accounting for cash-settled share-based payment transactions and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Furthermore, this document introduces an exception to IFRS 2 so that a share-based payment is classified as equity-settled in its entirety when the employer is required to withhold an amount for an employee's tax obligation to be paid to the tax authorities.
The requirements introduced by the coming into force of this standard will not have any financial impact on the Company.

- *IFRIC 22 "Foreign currency transactions and advance consideration".* This interpretation, which was published by the IASB on December 8, 2016, clarifies the accounting for foreign currency transactions or parts of transactions whose consideration is expressed in a foreign currency. It provides guidance for transactions involving one single payment/receipt as well as for those comprising more payments/receipts. The aim of the interpretation is to reduce the use of inconsistent methods.
The requirements introduced by the coming into force of this standard will not have any financial impact on the Company.

- *Annual Improvements to IFRSs: 2014-2016 Cycle* They are part of the annual improvement process and will be applicable for annual periods beginning on or after January 1, 2018. The process covered: i) IFRS 1, ii) IFRS 12 and IAS 28. The amendments included clarifications, corrections or the removal of sentences which were no longer relevant. The requirements introduced by the coming into force of these amendments will not have any financial impact on the Company.

- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* - which introduce some guidance about insurance contracts falling under the scope of IFRS 4 in connection with the introduction of IFRS 9. The requirements introduced by the coming into force of this standard will not have any financial impact on the Company.

- *Amendments to IAS 40 "Transfers of Investment Property".* These amendments, which were published by the IASB on December 8, 2016, clarify that the transfers into, or out of, investment property should only be made when there is evidence of a change in use. Therefore, a change of use occurs if the property meets, or ceases to meet, the definition of investment property. The requirements introduced by the coming into force of this standard will not have any financial impact on the Company.

Accounting standards, amendments and interpretations endorsed by the European Union that are not yet effective and have not been early adopted by the Company

The Company did not apply the following standards which were issued and endorsed, but are not yet in force.

- IFRS 16 "Leases". On January 13, 2016, the IASB published IFRS 16 "Leases" ("IFRS 16") which replaces IAS 17 "Leases" and the related interpretations. IFRS 16 was endorsed by the European Union on October 31, 2017. It eliminates the difference between operating and finance leases for the purposes of the preparation of lessees' financial statements. For all leases with a term of more than 12 months, except for those related to assets with a low unit value, an entity shall recognise an asset and a liability, representing the right to use the underlying asset and the obligation to make contract payments, respectively. Conversely, for the purposes of lessors' financial statements preparation, the difference between operating and finance leases is maintained. IFRS 16 strengthens disclosures for both lessors and lessees.

  The company will apply IFRS 16 as of January 1, 2019 using the simplified approach, which does not require the restatement and recalculation of the accounting balances prior to the application of the standard. Specifically, the right-of-use asset is equal to the carrying amount of the related liability at the date of first-time application (1 January), adjusted to reflect the prepayments and accrued expenses related to back- and front-loaded lease payments recognised on said date. The Company will apply the exemptions provided for by the standard with respect to leases with a term of less than 12 months, including contracts whose residual term at the action date is below 12 months, and related to assets of a low unit value.

Lease liabilities will be measured at the present value of the residual lease payments at the date of the first-time application of the standard, which are fixed and remain substantially fixed over the lease term. The lease term includes all non-cancellable periods for which the Company has the right to use an underlying asset and the periods covered by an extension option if exercise of that option by the Company is reasonably certain. Lease liabilities do not include significant non-lease components.

The discount rate used to measure the carrying amount of lease liabilities takes into account the country and currency risks, the lease term and the Company's credit risk.

The Company estimated non significant impact on the financial statements deriving from the application of IFRS 16.

Furhtermore, the Company does not expect any significant impact from the application of the new standard in terms of profit for the year and cash flows from operating activities. Furthermore, it does not expect any significant impact on the financial statements in terms of: i) contracts in which the Company acts as the lessee, which were previously recognised as finance leases and ii) contracts in which it acts as the lessor.

The above estimates may be subject to changes during the preparation of the financial information required in 2019 upon completion of the checks currently under way on application models and information systems.

Accounting standards, amendments and interpretations not endorsed by the European Union

The following standards and amendments have been issued by the IASB but at the date of these financial statements had not been adopted by the European Union.

- *IFRIC 23 "Uncertainty over Income Tax Treatments".* On June 7, 2017, the IASB published IFRIC 23 "*Uncertainty over Income Tax Treatments*", which provides guidance about the recognition of current and/or deferred tax assets and liabilities related to income taxes, when there is uncertainty over income tax treatments under the applicable tax legislation. IFRIC 23 provisions are effective for annual periods beginning on or after January 1, 2019.

- *Amendments to IFRS 9 "Prepayment Features with Negative Compensation".* On October 12, 2017, the IASB published an amendment to IFRS 9, governing the accounting treatment of "Prepayment Features with Negative Compensation".
  Furthermore, the IASB clarified some aspects about the recognition of the change to financial liabilities which were not derecognised. The amendment to IFRS 9 is effective for annual periods beginning on or after January, 1 2019.

- *Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures".* On October 12, 2017, the IASB published this amendment to IAS 28 to clarify the application of IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture to which the equity method is not applied. The amendment to IAS 28 is effective for annual periods beginning on or after January 1, 2019.

- *IFRS 17 "Insurance Contracts".* On May 18, 2017, the IASB published IFRS 17 "Insurance contracts" which governs the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

- *Annual improvements to IFRSs: 2015-2017 Cycle*, published by the IASB on December 12, 2017, modify the following standards:
  (v) *IFRS 3 Business Combinations*: when obtaining control of a company which was previously recognised as a joint venture;
  (vi) *IFRS 11 Joint Arrangements*: when obtaining control of a company which was previously recognised as a joint arrangement;
  (vii) *IAS 12 Income Taxes:* with respect to the income tax consequences of dividends;
  (viii) *IAS 23 Borrowing Costs*: with respect to the treatment of borrowings when the related asset is ready for its intended use or sale.

  These amendments are effective for annual periods beginning on or after January 1, 2019.

- *Amendments to IAS 19 – "Employee Benefits",* published by the IASB on February 7, 2018. The document *"Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)"* clarifies some accounting aspects related to amendments, curtailments or settlements of a defined benefit plan.
  The amendments apply to plan amendments, curtailments or settlements that will take place after January 1, 2019.

- *Amendments to IFRS 3 – "Business Combinations",* published by the IASB in October 2018, to improve the definition of "business" and provide additional operating guidance for financial statements preparation. The amendments assist companies in determining the target of an acquisition, by distinguishing between a business or a group of assets. These amendments are effective for annual periods beginning on or after January 1, 2020.

- *"Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors"*, published by the IASB in October 2018, to clarify the definition of "materiality" and the application of the concept of "materiality" included in the reporting standards. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS. These amendments are effective for annual periods beginning on or after January 1, 2020.

- *Review of the "Conceptual Framework for Financial Reporting".* In March 2018, the IASB published the revised version of the *Conceptual Framework for Financial Reporting*, which is immediately applicable for both the IASB and the IFRIC when publishing new standards and interpretations and for first-time adopters for annual periods beginning on or after January 1, 2020.

The Company will adopt these new standards and amendments, with due regard to the application dates envisaged, and will assess their potential effects on the Consolidated Financial Statements, when they have been endorsed by the European Union.

2.4. Significant Non-Recurring Events and Transactions

In accordance with Consob Communication dated July 28, 2006, it is noted that the Company's financial performance was not affected by non-recurring events and transactions.

For additional information, reference should be made to note 7 *"Current and non-current financial receivables"* and 8 "*Investments in subsidiaries*".

3 Management of Financial Risks

The activities of the Company are exposed to the following risks: market risk (including in particular, interest rate risk and foreign exchange rate risk), liquidity risk, and capital risk.

The Company's risk management strategy focuses on minimizing potential adverse effects on the Company's financial performance. Certain types of risk are mitigated by using derivative instruments. Risk management is centralised with Company management who identifies, assesses and hedges financial risks in close cooperation with the Company's and Company's operating units. Company management provides instructions for monitoring the management of risks, as well as instructions for specific areas concerning interest rate risk, exchange rate risk and the use of derivative and non-derivative instruments.

Market risk

The Company is exposed to market risks associated with interest rates and exchange rates.

Interest rate risk

Interest rate swaps are entered into to reduce the exposure to changes in interest rates for long-term borrowings. Interest rate swaps provide for the periodic swap of floating rate interest into fixed rates, both calculated using the same notional principal. From an operational viewpoint, the instruments used by the Company are deemed of a hedging nature.

The notional value of the interest rate swaps outstanding at December 31, 2018 totalled Euro 84,500 thousand (Euro 90,833 thousand at December 31, 2017). The interest rate swaps outstanding at December 31, 2018 had a negative fair value of Euro 1,308 thousand (negative fair value of Euro 1,293 thousand at December 31, 2017).

The risk of floating-rate borrowings not hedged through interest rate swaps represents a key exposure, given the potential impact of a rise in market interest rates on the income statement and cash flows.

The Company's non-current borrowings bore floating rates of interest as at December 31, 2018 and 2017. After considering the impact of interest rate swaps, the exposure to floating interest rate risk was reduced to 52% and 55% respectively at December 31, 2018 and 2017.

An increase/decrease of 1% (100 basis points) in interest rates compared to those applicable as at December 31, 2018 and 2017, with all other variables (including hedging derivatives in place) remaining unchanged, would have resulted in a decrease/increase respectively in profit before taxation for the year of Euro 882 thousand in 2018 and Euro 832 thousand in 2017.

Exchange rate risk

In order to reduce the exchange rate risk deriving from foreign currency denominated assets, liabilities and cash flows, the Company enters into forward contracts to hedge future cash flows denominated in currencies other than Euro.

The Company has opted not to hedge through forward contracts the exposure to the foreign exchange rate fluctuations connected with long-term borrowings and financial receivables from related parties denominated in foreign currencies and in particular USD.

The income statement for 2018 includes net foreign exchange gains of Euro 402 thousand (net foreign exchange losses of Euro 1,354 thousand in 2017).

An increase/(decrease) of 1% (100 basis points) in Euro/USD exchange rates compared to those applicable as at December 31, 2018 and 2017, with all other variables remaining unchanged, would have resulted in a (decrease)/increase in profit before taxation for the year of Euro (85)/87 thousand in 2018 and (decrease)/increase of Euro (87)/89 thousand in 2017.

Liquidity risk

Liquidity risk relates to the Company's capacity to meet its obligations and commitments deriving principally from financial liabilities. The Company's management of liquidity risk in the ordinary course of business involves maintaining a sufficient level of cash and ensuring the availability of funds through adequate lines of credit.

At December 31, 2018, the Company had credit lines totalling Euro 16,200 thousand (Euro 16,000 thousand at December 31, 2017), drawn by Euro 6,000 thousand.

Additionally, it is noted that:

- various sources of finance are available from different banks;
- there is not a significant concentration of liquidity risk in terms of financial assets or sources of financing.

The following tables set forth the expected future cash flows related to financial liabilities outstanding at December 31, 2018 and 2017:

As at December 31, 2018 *(in thousands of Euro)*	**Carrying amount**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	192,145	49,212	143,548	4,176
Other Current and Non-Current Liabilities	5,965	4,924	1,041	-
Trade payables	1,700	1,700	-	-
Total	**199,809**	**55,835**	**144,589**	**4,176**

As at December 31, 2017 *(in thousands of Euro)*	**Carrying amount**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	196,305	30,340	171,447	1,727
Other Current and Non-Current Liabilities	6,233	5,118	1,115	-
Trade payables	798	798	-	-
Total	**203,336**	**36,256**	**172,562**	**1,727**

Capital risk

The Company's main objective in managing capital risk is to ensure business continuity in order to guarantee returns for shareholders and benefits for other stakeholders. The Company also seeks to maintain an optimal capital structure in order to reduce the cost of borrowing.

Financial assets and liabilities by category

Trade receivables and other financial assets, trade payables, other payables and other financial liabilities classified as "current" in the statement of financial position are measured at amortized cost. The fair value of such assets and liabilities is the same as the related carrying amounts in the Separate Financial Statements at December 31, 2018 and 2017, as they primarily relate to balances generated by normal business that will be settled in the short term.

The following tables set forth an analysis of the Company's financial assets and liabilities by category at December 31, 2018 and 2017:

As at December 31, 2018 *(in thousands of Euro)*	**Financial instruments at amortized cost**	**Financial instruments at fair value**	**Total financial assets / liabilities**	**Non-financial assets / liabilities**	**Total**
Assets					
Current and Non-Current Financial Receivables	42,085	-	42,085	-	42,085
Other current assets	1,675	-	1,675	320	1,995
Cash and cash equivalents	33,213	-	33,213	-	33,213
Total assets	**76,973**	**-**	**76,973**	**320**	**77,293**
Liabilities					
Current and non-current borrowings	192,145		192,145	-	192,145
Trade payables	1,700		1,700	-	1,700
Other Current and Non-Current Liabilities	1,073	1,308	2,381	3,258	5,965
Total liabilities	**194,917**	**1,308**	**196,552**	**3,258**	**199,810**

As at December 31, 2017 *(in thousands of Euro)*	**Financial instruments at amortized cost**	**Financial instruments at fair value**	**Total financial assets / liabilities**	**Non-financial assets / liabilities**	**Total**
Assets					
Current and Non-Current Financial Receivables	49,002	-	**49,002**	-	**49,002**
Other current assets	1,345	-	**1,345**	166	**1,511**
Cash and cash equivalents	32,328	-	**32,328**	-	**32,328**
Total assets	**82,675**	**-**	**82,675**	**166**	**82,841**
Liabilities					
Current and non-current borrowings	196,305		**196,305**	-	**196,305**
Trade payables	798		**798**	-	**798**
Other Current and Non-Current Liabilities	873	1,293	**2,166**	4,067	**6,233**
Total liabilities	**197,976**	**1,293**	**199,269**	**4,067**	**203,336**

Fair value

The fair value of financial instruments listed in an active market is based on their market prices at the reporting date. The fair value of financial instruments not listed in an active market is determined using measurement techniques based on a series of methods and assumptions linked to market conditions at the reporting date.
The fair value hierarchy for financial instruments is as follows:

Level 1: Fair value is determined with reference to the (unadjusted) listed prices in active markets of identical financial instruments.

Level 2: Fair value is determined using measurement techniques based on inputs observable in active markets.

Level 3: Fair value is determined using measurement techniques based on inputs that are not observable.

Derivatives on interest rates *(in thousands of Euro)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities at December 31, 2018	-	1,308	-	**1,308**
Liabilities at December 31, 2017	-	1,293	-	**1,293**

The fair value of derivative instruments at December 31, 2018 and 2017 is measured in accordance with Level 2.

Financial instruments with a Level 2 fair value include financial derivatives. Derivative instruments include interest rate swaps determined using a forward curve of interest rates based on market yield curves.

There were no changes in measurement techniques during the years ended December 31, 2018 and 2017. Similarly, there were no changes in the valuation techniques used. Decisions to classify financial instruments in terms of Level 2 or Level 3 are taken at each balance sheet date for financial reporting purposes.

4 Use of Estimates and Assumptions

The preparation of financial statements requires that management apply accounting standards and methods, which in certain cases depend on subjective measurements and estimates based on past experience as well as assumptions which, on a case-by-case basis, are considered reasonable and realistic in the specific circumstances. The use of such estimates and assumptions influences the amounts reported in the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the explanatory notes. Actual results for such items may differ from the amounts reported in the financial statements due to the uncertainties that characterise the assumptions and conditions on which such estimates were made.
The following paragraphs provide brief descriptions of those areas, which, more than others, require subjective judgement on the part of management when making estimates, and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial information reported.

(a) Impairment of assets

In accordance with the relevant accounting standards, intangible assets and property, plant and equipment with a finite useful life are tested for impairment, and then written down as appropriate whenever indicators suggest that their net carrying amount may be higher than the recoverable amount. The identification of such indicators requires that management exercise subjective judgement based on information available within the Company and from the market as well as on historical experience. In addition, when potential impairment is identified, management determines the extent of such impairment by applying suitable measurement techniques. Identification of the indicators of potential impairment, as well as the estimates for determining its extent, depend on factors that may vary over time, thus influencing management's judgements and estimates.

(b) Amortization and depreciation

The cost of intangible assets and property, plant and equipment with a finite useful life is amortized or depreciated on a straight-line basis over their estimated useful lives. The useful economic lives of these assets are determined by management at the time of acquisition, based on historical experience with similar assets, market conditions and information regarding future events that may have an impact on useful life, such as changes in technology. Accordingly, actual useful lives may differ from estimates.

(c) Taxation

Income taxes (current and deferred) are determined on the basis of the local tax regulations in force. This process sometimes involves making complex estimates to determine the amount of taxable income and the deductible and taxable temporary differences between book and tax amounts. In particular, deferred tax assets are recognized if it is probable that they will be recovered against future taxable income. The assessment of the recoverability of deferred tax assets, which are recognized in relation to both tax loss carryforwards and deductible temporary differences, takes account of estimated future taxable income and is based on prudent tax planning.

5 Intangible Assets

The item can be broken down as follows:

(in thousands of Euro)	**Software, licences and other immaterial assets**	**Asset under development**	**Total**
As at December 31, 2016	**478**	**-**	**478**
Of which:			
- historical cost	*1,067*	-	***1,067***
- accumulated depreciation	*(589)*	-	***(589)***
Capital expenditure	309	70	***379***
Disposals	-	-	**-**
Amortization	(175)		***(175)***
As at December 31, 2017	**612**	**70**	**682**
Of which:			
- historical cost	1,376	70	**1,446**
- accumulated depreciation	(764)	-	**(764)**
Capital expenditure	19	1,426	***1,426***
Disposals	-	-	**-**
Amortization	(182)	-	***(182)***
As at December 31, 2018	**449**	**1,426**	**1,944**
Of which:			
- historical cost	1,395	1,496	**2,890**
- accumulated depreciation	(946)	-	**(964)**

The increase related asset under development refers to the activation as asset of cost incurred for the implementation of the new Group ERP.

6 Property, Plant and Equipment

The item can be broken down as follows:

(in thousands of Euro)	**Land and buildings**	**Plant and machinery**	**Other**	**Total**
As at December 31, 2016	**11,203**	**408**	**2.242**	**13,853**
Of which:				
- historical cost	*13,109*	*1.095*	*3,084*	17,288
- accumulated depreciation	*(1,906)*	*(687)*	*(842)*	(3,435)
Capital expenditure	32	35	139	**206**
Disposals	-	-	-	**-**
Amortization	(289)	(78)	(166)	***(533)***
Reclassifications	-	-	-	**-**
As at December 31, 2017	**10.946**	**365**	**2.215**	**13,526**
Of which:				
- historical cost	*13,142*	*1,129*	*3,223*	*17,494*
- accumulated depreciation	*(2,196)*	*(764)*	*(1,008)*	*(3,968)*
Capital expenditure	21	268	12	301
Disposals	-	-		-
Amortization	(290)	(102)	(163)	(555)
As at December 31, 2018	**10,677**	**531**	**2,064**	**13,272**
Of which:				
- historical cost	*13,163*	*1,397*	*3,235*	*17,795*
- accumulated depreciation	*(2,486)*	*(866)*	*(1,171)*	*(4,523)*

Property, plant and equipment mainly include the cost of the building located in Villorba (Treviso), headquarter of the Group together with the related investments.

7 Current and Non-Current Financial Receivables

The following table sets forth a breakdown of current and non-current financial receivables from subsidiaries at December 31, 2018 and 2017:

Current and Non-Current Financial Receivables *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
As at December 31, 2018	8,160	29,509	4,416	**42,085**
As at December 31, 2017	7,477	34,245	7,279	**49,001**

The following table provides details of the main borrowings in place:

Interest rate	**Year**	**Counterparty**	**Currency**	**Initial principal amount**	**As at December 31,**	
					2018	**2017**
				(in thousands)	*(in thousands of Euro)*	
Libor 3M + 3%	2014	Boncafe International Pte Ltd	USD	21,366	7,478	7,452
Libor 3M + 3%	2014	MZB (Thailand) Ltd	THB	83,275	1,137	1,359
7.26%	2015	Meira Oy Ltd.	EUR	16,416	10,267	11,970
Euribor 3M + 1.5%	2016	Massimo Zanetti Beverage S.A.	EUR	29,620	20,470	25,270
1.20%	2017	Segafredo Zanetti Australia Pty Ltd.	EUR	1,700	1,625	1,700
1.20%	2017	Boncafe International Pte Ltd	EUR	1,300	1,100	1,250
		Other investment	EUR	8	8	-
Total					**42,085**	**49,001**
of which non-current					33,925	41,524
of which current					8,160	7,477

Please refer to Note 23 - "*Related Party Transactions*" for further information about current and non-current financial receivables.

8 Investments in Subsidiaries

The item can be broken down as follows:

(in thousands of Euro)	**As at December 31, 2016**	**Increase/ (Decrease)**	**As at December 31, 2017**	**Increase/ (Decrease)**	**As at December 31, 2018**
Segafredo Zanetti SpA	42,258	-	42,258	-	42,258
La San Marco SpA	1,420	-	1,420	-	1,420
Segafredo Zanetti Espresso Worldwide Ltd	1,642	-	1,642	-	1,642
Massimo Zanetti Beverage SA	155,505	1,000	156,505	3,000	159,505
Segafredo Zanetti Coffe System SpA	3,341	-	3,341	-	3,341
Massimo Zanetti Beverage (Thailand) Ltd	339	-	339	-	339
Boncafe International Pte Ltd	43,670	10,195	53,865	-	53,865
Total	**248,175**	**11,195**	**259,370**	**3,000**	**262,370**

The Euro 3,000 thousand increase recorded by Massimo Zanetti Beverage SA refers to a capital injection for future share capital increase, related to the acquisition of BAG (Bean Alliance Group) done in the first month of 2019.

The increase in the investment in Boncafe International Pte Ltd in 2017 refers to the capital increase carried out by converting the loan receivable disbursed in 2014 and amounting to USD 11,000.

The following table sets forth the information relating to the percentage held in the subsidiaries' share capital and their equity as at December 31, 2018.

As at December 31, 2018 (in thousands of Euro)	Direct	Indirect	Registered office	Share capital	Equity	Carrying value	Equity attributable to owners of the parent
Segafredo Zanetti SpA	100%	-	Bologna	*EUR 38.800*	44,113	42,258	44,113
La San Marco SpA	90.4%	-	Gorizia	*EUR 7.000*	21,886	1,420	19,781
Segafredo Zanetti Espresso Worldwide Ltd	8.6%	89.1%	Geneva	*CHF 38.000*	17,785	1,642	1,530
Massimo Zanetti Beverage SA[1]	100%	-	Geneva	*CHF 192.900*	162,936	159,505	199,256
Segafredo Zanetti Coffee System SpA	16.7%	83.3%	Casale sul Sile (TV)	*EUR 6.000*	9,441	3,341	1,574
Massimo Zanetti Beverage (Thailand) Ltd	49.0%	51.0%	Bangkok	*THB 30.000*	1,951	339	956
Boncafe International Pte Ltd	100.0%	-	Singapore	*SGD 18.710*	16,660	53,865	16,660
Total						**262,370**	**283,869**

[1]The amount includes also other equity instruments

No impairment indicators were noted at December 31, 2018 also considering the results of the impairment test performed on the Group CGUs at December 31, 2018.

9 Deferred Tax Assets and Liabilities

The following table sets forth the movements in deferred tax assets and liabilities:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
As at January 1	**3,892**	**3,326**
Of which:		
- deferred tax assets	3,923	3,358
- deferred tax liabilities	(31)	(32)
Charged to the income statement	(63)	556
Credited/(Charged) to the other comprehensive income	-	2
Other changes	30	8
As at December 31	**3,859**	**3,892**
Of which:		
- deferred tax assets	3,889	3,923
- deferred tax liabilities	(30)	(31)

Net deferred tax assets relate mainly to *i)* carry-forward tax losses, *ii)* transactions costs incurred in 2015 associated with the increase in share capital which are deductible in future years, iii) temporary differences connected with the IFRS conversion, net of unrealised foreign exchange gains taxable in future years and other minor items.

10 Other Current Assets

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Other receivables from related parties	1,674	1,345
Tax receivables	214	4
Other receivables and current assets	106	162
Other current assets	**1,994**	**1,511**

Please refer to Note 23 - "*Related Party Transactions*" for further information about other receivables from related parties.

11 Cash and cash equivalents

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Cash at bank	33,211	32,322
Cash and cash equivalents	2	6
Total	**33,213**	**32,328**

12 Equity

Share capital

As at December 31, 2018, the issued and fully paid share capital of the Parent amounted to Euro 34,300 thousand and consists of 34,300,000 ordinary shares without nominal value.

Other reserves and retained earnings

Other reserves and retained earnings are detailed as follows:

(in thousands of Euro)	*Legal reserve*	*Share premium reserve*	*Other reserves*	**Other reserves**	**Retained earnings**
As at December 31, 2016	***3,786***	***62,918***	***46,793***	**113,497**	**8,769**
Profit for the year	-	-	-	-	6,721
Remeasurements of employee benefit obligations	-	-	-	-	(12)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**6,709**
Reclassifications	*410*	-	-	410	(410)
Dividend distribution	-	-	*(5,145)*	(5,145)	-
As at December 31, 2017	***4,196***	***62,918***	***41,648***	**108,762**	**15,068**
Profit for the year	-	-	-	-	7,787
Remeasurements of employee benefit obligations	-	-	-	-	(4)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**7,783**
Reclassifications	336	-	-	336	(336)
Dividend distribution	-	-	(5,831)	(5,831)	-
As at December 31, 2018	**4,532**	**62,918**	**35,817**	**103,267**	**22,515**

The share premium reserve, amounting to Euro 62,918 thousand at December 31, 2018, is recognised net of the listing costs incurred in 2015 and related to the share capital increase in accordance with IAS 32.

The following table provides details of the uses and amounts of reserves in equity available for distribution.

(in thousands of Euro)	**As at December 31, 2018**	**Potential uses***	**Amount available**
Share capital	**34,300**		
Legal reserve	4,532	B	-
Share premium	62,918	A, B, C	60,590
Other equity-related reserves	35,817	A, B, C	35,817
Total other reserves	**103,267**		
Retained earnings	**22,515**	*A, B, C*	22,515
Total equity	**160,082**		
Total			**118,922**
Amount distributable			118,922

*Legend - A = share capital increase, B = to cover losses, C = for shareholders distribution

13 Current and Non-current borrowings

The following table sets forth a breakdown of current and non-current borrowings at December 31, 2018 and 2017:

As at December 31, 2018 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	38,487	139,852	4,147	182,486
Short-term borrowings	6,000	-	-	6,000
Finance lease liabilities	92	683	-	775
Loans from related parties	2,884	-	-	2,884
Total	**47,463**	**140,535**	**4,147**	**192,145**

As at December 31, 2017 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	16,316	165,769	1,667	183,752
Short-term borrowings	5,996	-	-	5,996
Finance lease liabilities	93	779	-	873
Loans from related parties	5,685	-	-	5,685
Total	**28,090**	**166,548**	**1,667**	**196,305**

Long-term borrowings

The following table provides details of the main long-term borrowings in place:

			As at December 31,	
Interest rate	**Year**	**Initial principal amount**	**2018**	**2017**
		(in thousands)	*(in thousands of Euro)*	
denominated in Euro				
Euribor 3M + 1.25%	2015	12,000	7,000	8,333
Euribor 3M + 1.10%	2016	15,000	8,333	11,657
Euribor 6M + 1.35%	2016	50,000	50,000	50,000
Euribor 6M + 0.90%	2016	9,000	7,328	8,992
Euribor 6M + 1.05%	2016	50,000	44,861	49,824
Euribor 6M + 0.9%	2016	10,000	9,998	9,997
Euribor 3M + 0.75%	2016	10,000	7,514	9,996
Euribor 6M +1%	2016	10,000	7,489	9,984
0.80%	2017	10,000	9,988	9,984
Euribor 3M +0.85%	2017	15,000	14,988	14,985
Euribor 3M +0,75%	2018	15,000	14,987	-
Total			**182,486**	**183,752**
of which non-current			*143,999*	*167,436*
of which current			*38,487*	*16,316*

Certain of the Company's loan contracts require compliance with financial covenants and/or obligations to act or refrain, including the obligation to set up collateral or personal guarantees (negative pledges), and cross-defaults, typical of the international practice:

- financial covenants: such clauses require the Company to comply with certain target financial ratios (such as ratio of net indebtedness to profitability, profitability to finance charges and net debt to equity) and may result in changes to interest rates if certain conditions arise. If financial covenants are breached, the Company may be required to repay the loan immediately;
- negative pledges: such clauses allow financial institutions to require early repayment of loans and set limits to the Company's rights to use Company assets as collateral or security in favour of third parties or to vary controlling shareholdings without the express consent of the financial institution;

- cross-defaults: such clause, where included in loan contracts, provides that, when a breach of a requirement is declared in relation to contracts other than the loan contracts, such breach constitutes a breach of the loan contracts.

The Company's loan contracts during the periods under examination require compliance with certain operational and financial covenants, which had been complied with at December 31, 2018 and 2017. Consequently, there are no events of default to be reported.

On April, 2018, the Company entered into a medium-to-long term loan agreement with Banca Popolare di Sondrio for an overall amount of Euro 15,000 thousand reaching maturity on 2025.

The following table reports the long-term borrowings by variable and fixed rates of interest, denominated in Euro.

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Principal amount of long-term borrowings		
- at variable rate	172,684	174,000
- at fixed rate	10,000	10,000
Notional value of derivatives on interest rates	84,500	90,833
Long-term borrowings converted at fixed rate	52%	55%
Remaining portion of long-term borrowings at variable rate	48%	45%

Furthermore, the Company has entered into interest rate swaps to hedge against interest rate fluctuations. However, these instruments do not meet the hedge accounting requirements set out in IAS 39 "Financial instruments: recognition and measurement". Please refer to Note 3 – "*Management of Financial Risks*" for further details.

Short-term borrowings

Short-term borrowings include two short-term unsecured borrowings from the Italian branch of Banco Do Brasil bearing variable interest rates and having a principal amount of Euro 6,000 thousand at December 31, 2018. Settlement of the aforementioned borrowings is expected in 2020.

Loans from related parties

Please refer to Note 23 – "*Related Party Transactions*" for further details on loans from related parties.
The following table sets forth a breakdown of the Company's net financial indebtedness as at December 31, 2018 and 2017, determined in accordance with the CONSOB communication dated July 28, 2006 and in compliance with the Recommendation ESMA/2013/319:

		As at December 31,	
	(in thousands of Euro)	**2018**	**2017**
A	Cash and cash equivalents	(2)	(6)
B	Cash at bank	(33,211)	(32,322)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(33,213)**	**(32,328)**
E	**Current financial receivables**	**(8,160)**	**(7,477)**
F	Current loans	6,000	5,996
G	Current portion of non-current loans	38,487	16,316
H	Other current financial payables	2,976	5,778
I	**Current indebtedness (F+G+H)**	**47,463**	**28,090**
J	**Net current indebtedness (I+E+D)**	**6,090**	**(11,715)**
K	Non-current medium/long-term loans	143,999	167,436
L	Issued bonds	-	-
M	Other non-current financial payables	683	779
N	**Non-current indebtedness (K+L+M)**	**144,682**	**168,215**
O	**Net financial indebtedness (J+N)**	**150,772**	**156,500**
	of which due to third parties	156,048	158,292
	of which due to related parties	(5,276)	(1,792)

14 Employee Benefits

Employee benefits include the provision for termination indemnities (TFR) for employees of Company entities in Italy. Employee benefits are detailed as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
As at January 1	**301**	**261**
Service costs	57	47
Interest expenses	7	4
Benefits paid	(15)	(27)
Remeasurements of employee benefits	4	16
As at December 31	**354**	**301**

The following table provides details of the actuarial assumptions used to measure the defined benefit pension plans:

	As at December 31,	
	2018	**2017**
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	3.58%	2.28%
Demographic assumptions		
Probability of resignation	3.63%	6.40%
Probability of advance payments to employees	1.80%	2.62%

Demographic assumptions reflect actuarial expectations, based on relevant, published statistical data relating to the business sector for the countries in which the Company is active and the average number of employees during the periods in question.

The following table provides a sensitivity analysis of the defined benefit pension plans to changes in the key assumptions:

(in thousands of Euro)	**Changes in assumptions (%)**	**Impact on employee benefits based on**			
		Increase in assumptions	**Decrease in assumptions**	**Increase in assumptions**	**Decrease in assumptions**
Economic assumptions		*as at December 31, 2018*		*as at December 31, 2017*	
Inflation rate	0.50%	4	-4	4	-4
Discount rate	0.50%	-13	13	-10	11
Demographic assumptions					
Probability of resignation	0.50%	0	0	0	0
Probability of advance payments to employees	0.50%	0	0	0	0

The above sensitivity analysis is based on changes being made to individual assumptions while maintaining other assumptions constant, although it is recognized that in practice changes in a given assumption often result in changes being made to other assumptions because of potential links. The sensitivities reported in the table above are calculated applying the same methodology used to calculate the liability included in the statement of financial position (the projected unit credit method).
The Company is exposed to certain risks relating to its defined benefit pension plans, including the following:

Discount rate and inflation rate risk
The present value of defined benefit plans is determined by discounting the future cash flows using an interest rate based on that of high-quality corporate bonds. A decrease in the discount rate would lead to an increase in the liability. A decrease in the inflation rate would lead to a decrease in the liability.

Probability of retirement, termination and advance payments
The present value of defined benefit plans is determined using best estimates of termination and advance payments. An increase in the level of retirement, termination and advance payments would result in an increase in the liability.
The following table provides details of expected payments during the next few years (not discounted) in relation to employee benefits.

(in thousands of Euro)	**Balance**	**Less than 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Expected benefits paid to employees as at December 31, 2018	**354**	25	26	199	526	**776**
Expected benefits paid to employees as at December 31, 2017	**301**	25	30	132	284	**471**

15 Other Current and Non-Current Liabilities

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2018**	**2017**
Non-current interest rate derivatives	1,041	1,115
Other non-current liabilities	**1,041**	**1,115**
Payables to personnel	385	337
Current interest rate derivatives	267	178
Payables to social security institutions	139	146
Tax payables	240	265
Other payables and current liabilities	2,820	3,319
Other payables due to related parties	1,073	873
Other current liabilities	**4,924**	**5,118**

Please refer to Note 3 - "*Management of Financial Risks*" for further details on derivative instruments and also to Note 23 – "*Related Party Transactions*" for further details regarding "Other payables due to related parties".

16 Revenue

Revenue amounted to Euro 10,622 thousand in 2018 (Euro 8,143 thousand in 2017), entirely attributable to related party transactions and, in particular, to management fees to subsidiaries.

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Revenue from related parties	10,622	8,143
Total	**10,622**	**8,143**

17 Purchases of Services, Leases and Rentals

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Advertising and promotions	10	11
Consultancy and collaborations	1,679	691
Maintenance, repair and support	236	187
Transportation costs	292	277
Utilities	86	102
Insurance	29	11
Leases and rentals	42	42
Other services	301	773
Total	**2,675**	**2,094**

18 Personnel Costs

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31, 2018	2017
Wages and salaries	4,130	3,677
Social security contributions	743	719
Contributions to pension funds	18	16
Other personnel-related costs	44	22
Accruals to post-employment benefits	54	48
Directors' fees	984	971
Total	**5,973**	**5,453**

The following table shows the Company's total and average number of employees:

	Average number of employees during the year		Number of employees as at December 31,	
(no.)	**2018**	**2017**	**2018**	**2017**
Executives	5	6	5	5
Managers and white collar staff	16	14	17	14
Blue-collar workers	16	15	15	16
Total	**36**	**34**	**37**	**35**

19 Other Operating Costs

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31, 2018	2017
Indirect taxes and levies	83	97
Donations	35	39
Other costs	51	64
Total	**169**	**200**

20 Amortization, Depreciation and Impairment

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31, 2018	2017
Depreciation of property, plant and equipment	555	533
Amortization of intangible assets	182	175
Total	**738**	**708**

21 Finance income and costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Interest income	1	9
Interest income from related parties	1,269	1,341
Dividends from subsidiaries	7,593	8,235
Total finance income	**8,863**	**9,585**
Interest expense	(2,322)	(2,141)
Interest expense from related parties	-	-
Net foreign exchange gains/(losses)	402	(1,354)
Net changes on derivative financial instruments	(15)	20
Other finance costs	(91)	(209)
Total finance costs	**(2,026)**	**(3,685)**
Total net finance expense	**6,837**	**5,901**

Please refer to Note 23 – "*Related Party Transactions*" for further details regarding interest income from related parties and interest expense from related parties.

During the year, the subsidiaries distributed dividends to the Company for Euro 7,593 thousand (Euro 8,235 thousand in 2017), of which: *i)* Euro 1,493 thousand from La San Marco S.p.A. (Euro 1,493 thousand in 2017) and *ii)* Euro 6,100 thousand from Massimo Zanetti Beverage SA (Euro 5,600 thousand in 2017).

In 2017 the company received dividends also from Segaredo Zanetti S.p.A (Euro 1,009 thousand) and Segafredo Zanetti Coffee System S.p.A.(Euro 133 thousand), which have not distributed dividends in 2018.

Net foreign exchange gains/(losses) are mainly related to the exchange rate gains and losses from financial receivables from related parties denominated in a foreign currency and, in particular, USD (see note 7 "*Current and Non-Current Financial Receivables*").

Please refer to Note 3 - "*Management of Financial Risks*" for further details on fair value losses on derivative financial instruments.

22 Income Tax Expense

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2018**	**2017**
Current income tax	(138)	(20)
Taxes related to prior periods	66	138
Benefit from group tax consolidation	8	468
Deferred tax	(63)	556
Total	**(127)**	**1,142**

The following table provides a reconciliation between theoretical and effective income tax expenses for 2018 and 2017.

(in thousands of Euro)	For the year ended December 31, 2018	2017
Profit (loss) before tax	7,914	5,579
Theoretical taxes	**(1,899)**	**(1,339)**
IRAP		-
Taxes related to prior periods	66	138
ACE and ROL	242	481
Change in IRES rate	-	-
Non-taxable dividends	1,804	1,954
Permanent differences and minor items	(340)	(92)
Income tax benefit	**(127)**	**1,142**

Measurement of deferred tax assets and deferred tax liabilities takes into consideration the change in IRES tax rate from 27.5% to 24.0% as from 2017.

23 Related Party Transactions

Related parties are recognized in accordance with IAS 24. They are mainly of a commercial and financial nature and are conducted under normal market terms and conditions.

The transactions with related parties described below result in benefits arising from the use of common services and shared competencies, Group-level synergies and common policy and strategy in financial matters. In particular, in 2018 and 2017, related party transactions were entered into in the following areas:
- provision of professional and other services;
- issue of loans and guarantees; and
- management of shared services.

The Company has entered into transactions with the following related parties:

- entities which are controlled directly or indirectly by MZ Industries or Mr. Massimo Zanetti (“**Entities under Common Control**”);
- Subsidiaries; and
- Company directors with strategic responsibilities and members of the Board of Directors (“**Key Management**”).

The following table shows the income statement effects of related party transactions for 2018 and 2017, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as at December 31, 2018 and 2017:

(in thousands of Euro)	**Entities under common control**	**Subsidiaries**	**Key Management**	**Total related parties**	**Financial statements line item**	**Percentage of financial statements line item**
Impact of transactions on income statement						
Revenue						
For the year ended December 31, 2018	18	10,604	-	**10,622**	10,622	**100.0%**
For the year ended December 31, 2017	18	8,125	-	**8,143**	8,143	**100.0%**
Other income						
For the year ended December 31, 2018	36	-	-	**36**	45	**80.0%**
For the year ended December 31, 2017	36	-	-	**36**	43	**83.7%**
Purchases of raw, ancillary, and consumable materials and goods						
For the year ended December 31, 2018	-	8	-	**8**	35	**21.8%**
For the year ended December 31, 2017	-	9	-	**9**	54	**16.7%**
Purchases of services, leases and rentals						
For the year ended December 31, 2018	-	131	-	**131**	2,675	**4.9%**
For the year ended December 31, 2017	-	-	-	**-**	2,094	**0.0%**
Personnel costs						
For the year ended December 31, 2018	-	70	4,173	**4,243**	5,973	**71.0%**
For the year ended December 31, 2017	-	-	3,412	**3,412**	5,453	**62.6%**
Other operating costs						
For the year ended December 31, 2018	35	-	-	**35**	169	**20.7%**
For the year ended December 31, 2017	39	-	-	**39**	200	**19.7%**
Finance income						
For the year ended December 31, 2018	-	8,862	-	**8,862**	8,862	**100.0%**
For the year ended December 31, 2017	-	9,576	-	**9,576**	9,585	**99.9%**
Finance costs						
For the year ended December 31, 2018	-	-	-	**-**	2,026	**0.0%**
For the year ended December 31, 2017	-	-	-	**-**	3,685	**0.0%**
Impact of transactions on statement of financial position						
Non-current financial receivables						
As at December 31, 2018	-	33,917	-	**33,917**	33,925	**100.0%**
As at December 31, 2017	-	41,524	-	**41,524**	41,524	**100.0%**
Other current assets						
As at December 31, 2018	15	1,659	-	**1,674**	1,995	**83.9%**
As at December 31, 2017	29	1,316	-	**1,345**	1,511	**89.0%**
Current financial receivables						
As at December 31, 2018	-	8,160	-	**8,160**	8,160	**100.0%**
As at December 31, 2017	-	7,477	-	**7,477**	7,477	**100.0%**
Current borrowings						
As at December 31, 2018	-	2,884	-	**2,884**	47,463	**6.1%**
As at December 31, 2017	-	5,684	-	**5,684**	28,090	**20.2%**
Trade payables						
As at December 31, 2018	-	49	-	**49**	1,700	**2.9%**
As at December 31, 2017	-	-	-	**-**	798	**0.0%**
Other current liabilities						
As at December 31, 2018	1	1,072	-	**1,073**	4,924	**21.8%**
As at December 31, 2017		873	-	**873**	5,118	**17.1%**

The following table shows details of other balances resulting from related party transactions at December 31, 2018 and 2017:

(in thousands of Euro)	**Subsidiaries**	**Total related parties**	**Total**	**Percentage of total**
Guarantees				
As at December 31, 2018	7,876	**7,876**	7,876	**100.0%**
As at December 31, 2017	6,379	**6,379**	6,379	**100.0%**

Subsidiaries

a) Revenue

Management fees relate to the services provided by the Company in accordance with the service agreements entered into with subsidiaries and entities under common control. The nature of the services provided are set out in service agreements with the various related parties and include support, assistance and coordination in relation to sales and production activities and also in relation to the management and implementation of trademarks and other rights owned by the Group. The Company also provides assistance to related parties in the preparation of internal reporting and in the management of human resources.

b) Finance income

Finance income includes *i)* dividends from subsidiaries amounting to Euro 7,953 thousand for 2018 (Euro 8,235 thousand in 2017); see Note 21 "*Finance Income and Costs*" for further details and *ii)* interest income amounting to Euro 1,261 thousand for 2018 (Euro 1,335 thousand in 2017) generated from the financial receivables outstanding at December 31, 2018 and 2017; for further details, see section *d)*.

c) Finance costs

In 2018, as in 2017 finance costs to related parties had a nil balance.

d) Current and Non-Current Financial Receivables

Current and non-current financial receivables amounting to Euro 42,077 thousand at December 31, 2018 (Euro 49,001 thousand at December 31, 2017) relate to receivables granted in favour of MZB SA, Boncafe International Pte Ltd, Massimo Zanetti Beverage (Thailand) Ltd, and Segafredo Zanetti Australia Pty Ltd. (please refer to Note 7 "*Current and Non-Current Financial Receivables* "for further information) and the financial receivables from Meira Oy Ltd.

e) Other current assets and liabilities

The Company opted to use the Group's VAT settlement system (article 73 of Presidential Decree 633/72) and the ''tax consolidation'' scheme (articles 117 et seq. of the Italian Consolidated Law on Income Taxes), together with the direct subsidiaries Segafredo Zanetti S.p.A. and La San Marco S.p.A. and the indirect subsidiary Segafredo Zanetti Coffee System S.p.A.. The items ''Other current and assets" and "Other current liabilities'' mainly include open positions relating to the Group system for payment of VAT and the "tax consolidation statute".

f) Current borrowings

Current borrowings amount to Euro 2,884 thousand at December 31, 2018 (Euro 5,684 thousand at December 31, 2017) and refer to a non-interest-bearing loan to Segafredo Zanetti S.p.A..

g) Guarantees

The Company has provided guarantees in favour of banking institutes on behalf of Group companies. These include:

- a guarantee in favour of BNP Paribas, of Euro 1,000 thousand at December 31, 2018 (Euro 1,000 thousand at December 31, 2017), related to the obligations of Segafredo Zanetti Portugal S.A. under the loan contract entered into by the latter with BNP Paribas on July 25, 2013. This guarantee covers the subsidiary Massimo Zanetti Beverage Iberia S.A as a result of the merger between Nutricafes SA and Segafredo Zanetti Portugal SA. in September;

- a guarantee issued on January 27, 2016 in favour of United Overseas Bank Limited in relation to the obligations of Boncafè International Pte Ltd to repay the credit lines granted SGD 5,200 thousand (Euro 3,355 thousand) at December 31, 2018.

- a guarantee in favour of Intesa San Paolo S.p.A. dated May 16, 2017 in relation to the credit lines granted by the latter to Boncafe' (Hong Kong) Limited for an amount of HKD 20,000 thousand (Euro 2,230 thousand) at December 31, 2018;

- a guarantee in favour of Unicredit Bank AG. dated October 30, 2018 in relation to the credit lines granted by the latter to Boncafè International Pte Ltd for an amount of USD 1,500 thousand (Euro 1,310 thousand) at December 31, 2018.

Key Management

Key Management include members of the Company's Board of Directors and the managers with strategic responsibilities who meet the relevant definition of the Code of Conduct. Key Management compensation amounted to Euro 4,173 thousand and Euro 3,412 thousand for the year ended December 31, 2018 and 2017, respectively.

24 Subsequent events

- Within the scope of the ordinary fund raising activities, the Group entered into a medium-to-long term loan agreement with Monte dei Paschi di Siena in February 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2026;
- Within the scope of the ordinary fund raising activities, the Group entered into a medium-to-long term loan agreement with Credito Valtellinese in February 2019 for an overall amount of Euro 15,000 thousand reaching maturity in 2026;

25 Information pursuant to article 149 duodecies of the Issuers' Regulation

Pursuant to article 149-duodecies of the Implementing Regulation of Legislative decree no. 58 of February 24, 1998, the following table shows the breakdown of the fees paid to the independent auditors and entities belonging to the their network:

Service	Service provider	Recipient	Fees 2018 *(in thousands of Euro)*
Audit services	PricewaterhouseCoopers SpA	Parent	240
	PricewaterhouseCoopers SpA	Subsidiaries	166
	PricewaterhouseCoopers Network	Subsidiaries	657
Other assurance services	PricewaterhouseCoopers Network	Parent	-
	PricewaterhouseCoopers Network	Subsidiaries	-
Tax and legal services	PricewaterhouseCoopers Network	Parent	-
	PricewaterhouseCoopers Network	Subsidiaries	98
Other services	PricewaterhouseCoopers Network	Parent	787
	PricewaterhouseCoopers SpA	Subsidiaries	15
	PricewaterhouseCoopers Network	Subsidiaries	217

The fees paid to the Board of Statutory Auditors amount to Euro 88 thousand in both 2018 and 2017.

Income Statement in accordance with Consob Resolution no. 15519 of July 27, 2006

	For the year ended December 31,			
(in Euro)	**2018**	**of which related parties**	**2017**	**of which related parties**
Revenue	10,621,902	10,621,901	8,143,255	8,143,255
Other income	45,282	36,000	42,608	36,000
Purchases of raw, ancillary, and consumable materials and goods	(35,193)	(7,630)	(53,761)	(9,030)
Purchases of services, leases and rentals	(2,674,723)	(131,243)	(2,093,696)	-
Personnel costs	(5,972,926)	(4,243,192)	(5,452,577)	(3,412,000)
Other operating costs	(168,801)	35,000	(200,101)	39,400
Amortization, depreciation and impairment	(737,852)		(707,732)	
Operating profit	**1,077,689**		**(322,004)**	
Finance income	8,862,883	8,861,596	9,585,224	9,576,379
Finance costs	(2,026,078)	-	(3,684,503)	-
Loss before tax	**7,914,494**		**5,578,717**	
Income tax expense	(126,682)		1,142,179	
Profit for the year	**7,787,812**		**6,720,896**	

Statement of Financial Position in accordance with Consob Resolution no. 15519 of July 27, 2006

	As at December 31,			
(in Euro)	**2018**	**of which related parties**	**2017**	**of which related parties**
Intangible assets	1,944,031		681,683	
Property, plant and equipment	13,271,996		13,526,130	
Investments in subsidiaries	262,369,702		259,369,702	
Deferred tax assets	3,888,750		3,923,324	
Non-current financial receivables	33,924,782	33,916,385	41,524,114	41,523,789
Total non-current assets	**315,399,261**		**319,024,953**	
Income tax assets	1,605,552		1,456,971	
Current financial receivables	8,160,349	8,160,349	7,477,390	7,477,390
Other current assets	1,994,842	1,674,388	1,510,563	1,345,390
Cash and cash equivalents	33,213,099		32,327,936	
Total current assets	**44,973,842**		**42,772,860**	
Total assets	**360,373,103**		**361,797,813**	
Share capital	34,300,000		34,300,000	
Other reserves	103,266,895		108,761,850	
Retained earnings	22,515,238		15,067,742	
Total equity	**160,082,133**		**158,129,592**	
Non-current borrowings	144,681,900		168,215,263	
Employee benefits	353,828		300,991	
Deferred tax liabilities	29,859		30,941	
Other non-current liabilities	1,041,218		1,114,959	
Total non-current liabilities	**146,106,805**		**169,662,154**	
Current borrowings	47,463,030	2,883,878	28,090,225	5,683,878
Income tax liabilities	97,840		-	
Trade payables	1,699,694	49,186	797,883	
Other current liabilities	4,923,600	1,072,670	5,117,959	872,842
Total current liabilities	**54,184,164**		**34,006,067**	
Total liabilities	**200,290,969**		**203,668,221**	
Total equity and liabilities	**360,373,103**		**361,797,813**	

Statement of Cash Flow in accordance with Consob Resolution no. 15519 July 27, 2006

(in Euro)	For the year ended December 31, 2018	of which related parties	2017	of which related parties
Loss before tax	**7,914,494**		**5,578,717**	
Adjustments for:				
Amortization, depreciation and impairment	737,852		707,732	
Net finance income	(6,836,806)	(8,861,596)	(5,900,721)	(9,576,379)
Other non-monetary items	54,425		47,399	
Net cash generated/(used in) from operating activities before changes in net working capital	**1,869,965**		**433,127**	
Changes in trade payables	901,811		(76,160)	
Changes in other assets/liabilities	(933,002)	-	202,946	-
Payments of employee benefits	(15,205)		(26,983)	
Interest paid	(2,394,637)		(2,314,880)	
Income tax paid	10,203		-	
Net cash used in operating activities	**(560,865)**		**(1,781,950)**	
Investments in subsidiaries	(3,000,000)		(1,000,000)	
Dividends received	7,592,885	7,592,885	8,235,045	8,235,045
Purchase of intangible assets	(1,444,840)		(378,354)	
Purchase of property, plant and equipment	(301,226)		(205,732)	
Interest received	1,273,039	1,271,752	1,466,927	1,458,082
Changes in financial receivables	7,317,729	7,317,729	1,921,876	1,921,876
Net cash generated from/(used in) investing activities	**11,437,587**		**10,039,762**	
Proceeds from long-term borrowings	15,000,000		30,000,000	
Repayment of long-term borrowings	(16,316,493)	(6,600,000)	(19,590,736)	(3,800,000)
Decrease in short-term loans	(2,844,066)		110,088	
Dividends paid	(5,831,000)		(5,145,000)	
Net cash (used in)/generated from financing activities	**(9,991,559)**		**5,374,352**	
Total net increase in cash and cash equivalents	**885,163**		**13,632,164**	
Cash and cash equivalents at the beginning of the year	32,327,936		18,695,772	
Cash and cash equivalents at the end of the year	**33,213,099**		**32,327,936**	

Statement on the separate financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. We, the undersigned, Massimo Zanetti, in his capacity as Chairman and Chief Executive Officer, and Leonardo Rossi, in his capacity as Manager in Charge of the Financial Reports of Massimo Zanetti Beverage Group S.p.A., hereby certify, pursuant to the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998,:

   • the adequacy in relation to the company features and
   • the effective application

   of the administrative and accounting procedures for preparing the financial statements, for the year ended December 31, 2018.

2. The assessment of the adequacy of the administrative and accounting procedures used in preparing the financial statements, for the year ended December 31, 2018 was based on a process defined by Massimo Zanetti Beverage Group S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally- accepted reference framework.

3. The undersigned further certify that:

   3.1 the financial statements:

   a) have been prepared in accordance with applicable International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) No. 1606/2002 of European Parliament and Council on 19 July 2002;

   b) reflect the accounting books and records; and

   c) provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer.

   3.2 the Report on Operations includes a reliable analysis of the significant events that occurred during the financial year and the impact of such events on the issuer's financial statements.

Villorba (TV), February 28, 2019

Massimo Zanetti
Chairman and Chief Executive Officer

Leonardo Rossi
Manager in Charge of the Company's Financial Reports

Auditors' Report in accordance with Articles 14 and 16 of Legislative Decree n° 39 of January 27, 2010.

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Massimo Zanetti Beverage Group SpA (the Company), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income and the statement of changes in equity, the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of investments in subsidiaries *Note 8 to the financial statements* The financial statements of Massimo Zanetti Beverage Group SpA include investments in subsidiaries amounting to Euro 262,370 thousand, accounting for 73% of total assets, recognized at the purchase price or incorporation cost and tested for impairment in case impairment indicators are identified. As part of our audit as at 31 December 2018 we focused on this area of the financial statements, given the materiality of the amounts compared to the total assets and the elements of estimate intrinsic to the valuation of investments in subsidiaries.	As part of our audit of the financial statements as at 31 December 2018, we performed the following procedures. We obtained an understanding of the procedure adopted by the Company to identify impairment indicators, examining management's procedures to assess the existence of impairment indicators provided for in paragraph 12 of International Accounting Standard IAS 36 adopted by the European Union. We compared the results reported by the subsidiaries in 2018 with those budgeted for the same year. Finally, we obtained and evaluated the internal forecasting showing the results estimated in the 2019 budget, included in the business plan submitted to the board of directors on 22 February 2019.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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;
- We obtained 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;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded 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, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated 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 communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 31 March 2015, the shareholders of Massimo Zanetti Beverage Group SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2015 to 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Massimo Zanetti Beverage Group SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Massimo Zanetti Beverage Group SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Massimo Zanetti Beverage Group SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 14 March 2019

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

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Report of the Board of Statutory Auditors to the Shareholders' Meeting

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING
OF MASSIMO ZANETTI BEVERAGE GROUP S.p.A.
DRAWN UP PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98 AND
ARTICLE 2429.2 OF THE ITALIAN CIVIL CODE

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Dear Shareholders,

This report has been drawn up pursuant to article 153 of Legislative decree no. 58 of February 24, 1988 (the "TUF" or the "Consolidated Law on Finance") and article 2429 of the Italian Civil Code, in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) communication no. 1025564 of April 6, 2001, as subsequently amended and supplemented, and considering the rules of conduct set by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

1. In performing its supervisory and monitoring tasks, the Board of Statutory Auditors confirms:
   - it checked compliance with the law and the Bylaws and the principles of sound management, as required by article 2403 of the Italian Civil Code, article 149 of the T.U.F. and the above Consob communication no. 1025564 of April 6, 2001;
   - it participated in all meetings of the Board of Directors, the Internal Audit and Risk Committee, the Nominating and Remuneration Committee and the Committee for Related Party Transactions. Furthermore, it was periodically informed by the Directors about the overall business performance, its outlook and the main transactions with an effect on the Company's financial position and results of operations approved and implemented by the Company and its investees. The Board of Statutory Auditors can reasonably confirm that the transactions approved and implemented comply with the law and the Bylaws, are not openly imprudent, risky, in potential conflict of interest, in contrast with the Shareholders' Meetings' resolutions or such to jeopardize the integrity of the Company's assets; it did not identify any atypical and/or unusual transactions with group companies, third parties or related parties, nor was informed thereof by the Board of Directors, the independent auditors or the director in charge of the internal audit and risk management system. The Board of Directors described the effects of the ordinary transactions with a significant impact on the Company's financial position and results of operations carried out with related parties on an arm's length basis in the Report on operations and in the Notes to the consolidated financial statements. Furthermore, also based on the results of the specific controls carried out by the Internal Audit department, the Board of Statutory Auditors believes that related party transactions are adequately monitored. To this end, in accordance with the Regulations on transactions with related parties introduced pursuant to Consob Resolution no. 17221 dated March 12, 2010, as subsequently amended and integrated, the Company adopted a procedure governing related-party transactions. The aforementioned procedure was approved by the Board of Directors of the Company on July 15, 2015 and amended on February 27, 2015, August 28, 2015 and June 18, 2018 with the approval of the independent directors. Pursuant to article 4 of the above Regulation, the Board of Statutory Auditors checked that the procedures adopted complied with the Regulation's provisions and that they were complied with;
   - it gained knowledge of and monitored the adequacy of the Company's organizational structure to the extent of its duties, and compliance with the principles of sound management, by collecting

information from the Company's departments' heads and during the meetings held with the representatives of the independent auditors, PricewaterhouseCoopers S.p.A., which was engaged to perform the statutory audit of the financial statements, also for the purposes of exchanging relevant data and information, without identifying any critical issues. Similarly, no critical issues were identified during the meeting with the Boards of Statutory Auditors of the Italian subsidiaries (Segafredo Zanetti S.p.A., Segafredo Zanetti Coffee System S.p.A. and La San Marco S.p.A.);

- to have supervised and verified, to the extent of its responsibilities:
  - ➢ the financial reporting process, the adequacy of the internal control and accounting/administrative systems, and the latter's reliability in fairly presenting the Company's operations;
  - ➢ the adequacy of the systems and processes that govern the production, reporting, measurement and representation of non-financial results and information, through:
  - a) regularly exchanging information with the Chief Executive Officer and the Manager in charge of the preparation of corporate accounting documents pursuant to article 154-bis of the T.U.F.;
  - b) assessing the reports prepared by the Internal Audit department, including the corrective actions proposed and their implementation by the Company;
  - c) obtaining information from the departments' heads;
  - d) holding meetings and exchanging information with the Supervisory Board and the supervisory bodies of the Italian subsidiaries, through which the Board of Statutory Auditors obtained information on the administrative and control systems and business activities;
  - e) performing in-depth analyses of the activities carried out and the findings of the work conducted by the independent auditors;
  - f) participating in the meetings and the work of Audit and Risk Committee and, where necessary, by performing in-depth analyses of the relevant issues.

  The Board of Statutory Auditors did not identify any irregularities which may indicate weaknesses in the internal audit and risk management system.

- to have had meetings with representatives of the independent auditors PricewaterhouseCoopers S.p.A., appointed to perform the statutory audit of the accounts, for the purpose of exchanging relevant data and information, to be informed of the main risks to which the Company is exposed and the safeguards put in place to deal with them, as well as on the checks performed on the correct keeping of accounts and reporting of management activity in account entries. No relevant observations emerged from the interviews.
- it checked the implementation of the Corporate Governance Code of Listed Companies promoted by Borsa Italiana S.p.A. and adopted by the Company in accordance with that set out in the Report on Corporate Governance and Shareholding Structure approved by the Board of Directors on February 28, 2019. The Board of Statutory Auditors also checked the correct application of the criteria and assessment procedures used by the Board of Directors to assess the independence of its members. Furthermore, it checked compliance with the independence and professional expertise requirements of its members, pursuant to applicable legislation; it also carried out the annual self-assessment required by the Rules of Conduct of the Boards of Statutory Auditors of Listed Companies, issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (association of chartered accountants), reviewing the ability of its members to meet the eligibility requirements and the appropriate composition of the control body with respect to the requisites of professionalism, expertise, integrity and independence required by law, as well as the availability of time and correct

operation with regard to the planned activity. The positive outcome of this self-assessment was communicated to the Company's Board of Directors.

- it read and obtained information about the organizational and procedural activities carried out pursuant to Legislative decree no. 231/2001 on the administrative liability of entities. The Supervisory Board reported to the Board of Statutory Auditors on the activities carried out during the year without noting any significant events;
- it satisfied itself as to the fact that the information flows from the extra-EU subsidiaries were adequate for the purposes of checking the annual and interim financial statements pursuant to article 36 of the Market Regulations adopted as per Consob Resolution no. 16191 dated October 29, 2007;
- it monitored the implementation of the organizational measures related to the development of the Company’s business;
- to have supervised compliance with the provisions contained in Legislative decree no. 254/2016 on the disclosure of information of a non-financial nature and on diversity;
- it received the draft financial statements of MZBG S.p.A. at December 31, 2018, the Group’s consolidated financial statements at the same date, the Report on operations thereon and the Consolidated non-Financial Statement from the Board of Directors in accordance with the law.

As an Internal Audit and Audit Committee, pursuant to art. 19 of Legislative decree no. 39 of January 27, 2010 as amended by Legislative decree no. 135 of July 17, 2016, in implementation of Directive 2014/56/EU, during the year the Board of Statutory Auditors:

- monitored the financial reporting process, which proved to be suitable in terms of its integrity;
- checked the effectiveness of the internal quality control and business risk management systems as well as the internal audit with regard to financial reporting, without violating its independence;
- monitored the statutory audit of the financial statements and the consolidated financial statements;
- verified and monitored the independence of the independent auditors pursuant to the provisions of the law, in particular with regard to the adequacy of the provision of services other than auditing, in accordance with the provisions of article 5 of Regulation (EU) 537/2014.

During 2018, the Board of Statutory Auditors met six times and also participated in the nine meetings of the Board of Directors and all those of the Board Committees.

Based on the information obtained, the Board of Statutory Auditors believes that the business was conducted in accordance with the principles of sound management and that the organizational structure, the internal control system and the administrative/accounting structure are overall adequate to the Company's needs.

2. With respect to the relationship with the independent auditors PricewaterhouseCoopers SpA, the following should be noted:

- on March 14, 2019, pursuant to article 11 of Regulation (EU) 537/2014, the independent auditors issued their Report to the Internal Audit and Audit Committee which, specifically, is embodied by the Board of Statutory Auditors, stating that no significant weaknesses were identified in the internal controls over financial reporting. The independent auditors’ Report also includes the “Annual statement on independence” pursuant to article 6.2, letter a of the above EU Regulation. The aforementioned Report will be sent by the Board of Statutory Auditors to the Board of Directors as required by current law.

- on March 14, 2019, the audit firm issued its reports pursuant to article 14 of Legislative decree no. 39/2010 and article 10 of EU Regulation 537/2014, reports on revisions of financial statements, stating that:
  - the separate and consolidated financial statements at December 31, 2018 give a true and fair view of the Company's and the Group's financial position, results of operations and cash flows as at and for the year ended December 31, 2018;
  - the Report on operations and the information provided in article 123 bis.4 of Legislative decree no. 58/98, included in the Report on Corporate Governance and Ownership Structure, are consistent with the separate and consolidated financial statements;
  - with regard to any significant errors in the Report on operations, based on the knowledge and understanding of the company and its context acquired during the audit, it has nothing to report.
- on March 14, 2019, the audit firm also issued its reports pursuant to article 3 of Legislative decree no. 254/2016 and of art. 5 of Consob Regulation no. 20267/2018, the report on the Consolidated Non-Financial Statement relating to the year ended December 31, 2018 which shows that nothing emerged from the work carried out that lead one to believe that in all significant aspects it was not drafted in compliance with the requirements of art. 3 and 4 of Legislative decree no. 254/2016 and by the relevant adopted reporting standards;
- in addition to the tasks required by the current regulations applicable to listed companies, as described in the notes to the separate financial statements, the independent auditors, PricewaterhouseCoopers S.p.A., and their network companies, were assigned other engagements for non-audit services for Euro 1,117 thousand, which complied with that set out in article 17 of Legislative decree no. 39/2010. Also based on the above, the Board of Statutory Auditors believes that there are no critical issues regarding the independence of PricewaterhouseCoopers S.p.A..

3. During the year, no opinions required by the law were expressed since the necessary conditions were not met.

4. The Board of Statutory Auditors is not aware of any facts or claims to be reported to the Shareholders. As part of its activities and based on the information obtained, no omissions, censurable facts, irregularities or circumstances such to require communication to the Supervisory Authorities or disclosure in this report were identified.

5. With respect to the separate and consolidated financial statements at December 31, 2018 and the Report on operations, the Board of Statutory Auditors, to the extent of its duties, notes that the financial statement format applied complies with the law, that the accounting policies, as described in the notes, are adequate to the activities and the transactions carried out by the Company and the Group, that the procedure adopted (impairment test) to identify any impairment losses on the assets recognized in the financial statements was approved by the Board of Directors independently and before the approval of the annual report and that the financial statements are consistent with the facts and the information known to the Board of Statutory Auditors after participating in its meetings and as part of the task performed.

6. Based on the outcome of the specific tasks performed by the independent auditors on the audit of the accounting records and the reliability of the financial statements, and considering the supervisory duties carried out, the Board of Statutory Auditors is unanimously in favor of the approval of the separate financial statements as at December 31, 2018 and agrees with the Board of Directors' proposed allocation of the profit for the year.

Milan, March 15, 2019

On behalf of the Board of Statutory Auditors

The Chairperson

Fabio Facchini

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