ANNUAL REPORT 2016

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

MASSIMO ZANETTI
BEVERAGE GROUP

Table of Contents

COMPANY INFORMATION 5
COMPANY OFFICERS 6
MANAGEMENT REPORT 7
INTRODUCTION 7
STRUCTURE AND OPERATIONS OF THE GROUP 7
RECENT DEVELOPMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 8
RESULTS OF OPERATIONS 9
FORWARD 9
RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 9
RECLASSIFIED STATEMENT OF FINANCIAL POSITION 12
RECLASSIFIED CASH FLOW STATEMENT 13
NET FINANCIAL INDEBTEDNESS 15
CAPITAL EXPENDITURE 16
SUBSEQUENT EVENTS 17
BUSINESS OUTLOOK 17
NON-GAAP ALTERNATIVE PERFORMANCE INDICATORS 17
RELATED-PARTY TRANSACTIONS 18
SHARE PRICE TREND 19
ENVIRONMENT AND PERSONNEL 19
CORPORATE GOVERNANCE 20
RISK MANAGEMENT 21
OTHER INFORMATION 23
RECLASSIFIED INCOME STATEMENT AND RECLASSIFIED STATEMENT OF FINANCIAL POSITION OF THE COMPANY 24
NET FINANCIAL INDEBTEDNESS 25
RECONCILIATION OF THE COMPANY AND GROUP NET PROFIT AND SHAREHOLDERS' EQUITY 26
PROPOSED RESOLUTION CONCERNING NET INCOME FOR THE YEAR 27
CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016 28
CONSOLIDATED INCOME STATEMENT 28
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 29
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 30
CONSOLIDATED STATEMENT OF CASH FLOWS 31
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 32
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 33

1. General information 33
2. Accounting policies 33
2.1 Basis of Preparation 33
2.2 Scope of Consolidation and Changes 34
2.3 Consolidation Principles and Methodology 34
2.4 Accounting Policies 37
2.5 Recently-issued accounting standards 45
2.6 Significant Non-Recurring Events and Transactions 47
3. Management of Financial Risks 48
4. Use of Estimates and Assumptions 53
5. Business Combinations 55
6. Operating Segments 57
7. Intangible Assets 58
8. Property, Plant and Equipment 61
9. Investment Properties 62
10. Investments in Joint Ventures and Associates 62
11. Current and Non-Current Advances and Trade Receivables 63
12. Deferred Tax Assets and Liabilities 63
13. Other Current and Non-Current Assets 64
14. Inventories 64
15. Cash and cash equivalents 65
16. Equity 65
17. Current and Non-current borrowings 67
18. Employee Benefits 70
19. Other Non-Current Provisions 72
20. Other Current and Non-Current Liabilities 72

21. *Revenue* ... 73
22. *Other Income* ... 73
23. *Purchases of Goods* ... 73
24. *Purchases of Services, Leases and Rentals* ... 74
25. *Personnel Costs* ... 74
26. *Other Operating Costs* ... 75
27. *Amortization, Depreciation and Impairment* ... 75
28. *Finance Income and Costs* ... 75
29. *Income Tax Expense* ... 76
30. *Earnings per share* ... 76
31. *Commitments* ... 77
32. *Related Party Transactions* ... 77
33. *Subsequent events* ... 80

Appendix 1 – List of Companies included in the Consolidated Financial Statements: ... 82

CONSOLIDATED INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 84

CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 85

CONSOLIDATED STATEMENT OF CASH FLOW IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 JULY 27, 2006 ... 86

STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 AS AMENDED ... 86

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF JANUARY 27, 2010 ... 88

SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016 ... 90

INCOME STATEMENT ... 90

STATEMENT OF COMPREHENSIVE INCOME ... 91

STATEMENT OF FINANCIAL POSITION ... 92

STATEMENT OF CASH FLOWS ... 93

STATEMENT OF CHANGES IN EQUITY ... 94

NOTES TO THE SEPARATE FINANCIAL STATEMENTS ... 95

1 *General information* ... 95

2 *Accounting policies* ... 95

- 2.1. *Basis of Preparation* ... 95
- 2.2. *Accounting Policies* ... 96
- 2.3. *Recently-Issued Accounting Standards* ... 101
- 2.4. *Significant Non-Recurring Events and Transactions* ... 103

3 *Management of Financial Risks* ... 103

4 *Use of Estimates and Assumptions* ... 106

5 *Intangible Assets* ... 107

6 *Property, Plant and Equipment* ... 107

7 *Current and Non-Current Financial Receivables* ... 108

8 *Investments in Subsidiaries* ... 109

9 *Deferred Tax Assets and Liabilities* ... 109

10 *Other Current Assets* ... 110

11 *Cash and cash equivalents* ... 110

12 *Equity* ... 111

13 *Current and Non-current borrowings* ... 112

14 *Employee Benefits* ... 115

15 *Other Current and Non-Current Liabilities* ... 116

16 *Revenue* ... 117

17 *Purchases of Services, Leases and Rentals* ... 117

18 *Personnel Costs* ... 117

19 *Other Operating Costs* ... 118

20 *Amortization, Depreciation and Impairment* ... 118

21 *Finance income and costs* ... 119

22 *Income Tax Expense* ... 119

23 *Related Party Transactions* ... 120

24 *Subsequent events* ... 123

25 *Information pursuant to article 149 duodecies of the Issuers' Regulation* ... 123

INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 124

STATEMENT OF FINANCIAL POSITION IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 125

STATEMENT OF CASH FLOW IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 JULY 27, 2006 126
STATEMENT ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 AS AMENDED..127
AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF JANUARY 27, 2010. 128
REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING 130

Company 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 ID/Company Registration/VAT No. 02120510371C

Company Officers

Board of Directors

Massimo Zanetti
Chairman and Chief Executive Officer

Matteo Zanetti (**)
Director

Laura Zanetti (**)
Director

Massimo Mambelli
Director

Lawrence L. Quier
Director

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

Josè Fernando Pinto dos Santos (*) (2) (4)
Director

Roberto H. Tentori (*) (2) (3)
Director

Annapaola Tonelli (*) (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 Appointment and Remuneration Committee
(2) Member of the Appointment and Remuneration Committee
(3) Chairman of the Audit and Risk Committee
(4) Member of the Audit and Risk Committee

Statutory Auditors

Pier Paolo Pascucci
Chairman

Ermanno Era
Statutory Auditor

Maria Augusta Scagliarini
Statutory Auditor

Simona Gnudi
Supplementary Statutory Auditor

Franco Squizzato
Supplementary Statutory Auditor

Corporate Reporting Manager

Massimo Zuffi

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, 2016, 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**") and its subsidiaries (together referred to as the "**Group**" or "**MZB Group**") are international players in the production and sale of roasted coffee. In support of its core business, the 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 regional 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 related 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, chains of hyper and supermarkets, door-to-door sales operations and the so-called cash and carry outlets).

Customers in the Foodservice channel are businesses which buy and sell food and drinks for consumption outside the home environment (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 channel include 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, Germany and Austria and is also present, to a lesser extent, in the Netherlands, Poland, Portugal, 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 product line, distribution channel and geographic area. 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, 2016

In February, the Group acquired the entire share capital of Segafredo Zanetti Worldwide Italia S.p.A., a company owned directly by Massimo Zanetti, Chairman and CEO of the Company, active mainly in commercial franchising of operators in the Foodservice channel. The acquisition is of strategic importance as it has brought to the Group activities for the promotion and development of the MZBG Italian *coffee shop* managed by Segafredo Zanetti Worldwide Italia S.p.A., which completed the process of redefining its *business model* and improving its profitability. The purchase price, based on a valuation prepared by an independent expert, amounted to Euro 2,800 thousand.

On April 19, 2016 the Shareholders' Meeting of Massimo Zanetti Beverage Group S.p.A. approved the financial statements for 2015 and resolved to distribute a dividend of Euro 0.09 (Euro nine cents) per share for the year 2015. The total dividend of Euro 3,087 thousand, was paid in May.

At the end of April 2016, the Group finalised the acquisition of a 15.1% non-controlling interest in the share capital of Club Coffee LP ("**Club Coffee**"), Toronto, a leading Canadian company in innovative technological solutions in the single serve market, at a price of 15.1 million Canadian Dollars (CAD). The Group has an option on an additional 10% of the share capital of Club Coffee, Toronto that may be exercised within 13 months from the acquisition, at a price that will be defined according to market conditions.
Through this strategic acquisition, the Group intends to boost sales and expand its global presence on new geographical markets and in business segments that are more profitable.

In September the Group, through its subsidiary Segafredo Zanetti Portugal S.A., completed the purchase of 100% of the capital in Nutricafés S.A. (hereinafter "**Nutricafés**"), one of the main coffee market operators in Portugal. This acquisition will allow the Group to achieve synergies with the operations already present in the Iberian peninsula, also relying on the local coffee roasting plant which will serve the Spanish and Portuguese markets. This acquisition is part of the Group's strategy, which aims to develop further the food service channel and the single serve range.
The total price paid for the acquisition was Euro 40,459 thousand. The price was covered by long-term loans granted to the Group by the banking system. The acquired company's results were consolidated starting from September 2016.

In the second half of 2016, also in order to raise the resources to finance the acquisition of Nutricafés, the Group launched a process for the restructuring of its non-current financial indebtedness, in order to extend repayment plans and optimise their cost, by concluding new long-term financing agreements at better conditions than some previous agreements, for which gradual early repayment has been started.

Results of operations

Forward

In addition to the financial information and financial indicators required by the IFRS, this document presents reclassified financial statements and certain alternative performance indicators (“**Non-GAAP alternative performance indicators**”). Management believes that such information also provides useful and relevant information regarding 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, 2016 and 2015

The following table sets forth the reclassified consolidated income statement for the years ended December 31, 2016 and 2015.

	For the year ended December 31,				**Change**	
(in thousands of Euro)	**2016**	**(*)**	**2015**	**(*)**	**2016-2015**	
Revenue	917,475	100.0%	941,680	100.0%	(24,205)	-2.6%
Purchases of goods	(531,965)	-58.0%	(576,523)	-61.2%	44,558	-7.7%
Gross Profit[(1)]	**385,510**	**42.0%**	**365,157**	**38.8%**	**20,353**	**5.6%**
Purchases of services, leases and rentals	(175,054)	-19.1%	(169,967)	-18.0%	(5,087)	3.0%
Personnel costs	(138,749)	-15.1%	(127,777)	-13.6%	(10,972)	8.6%
Other operating costs, net[(2)]	712	0.1%	(5,420)	-0.6%	6,132	>-100%
Impairment[(3)]	(4,112)	-0.4%	(3,726)	-0.4%	(386)	10.4%
EBITDA[(1)]	**68,307**	**7.4%**	**58,267**	**6.2%**	**10,040**	**17.2%**
Non recurring items[(4)]	-	0.0%	6,753	0.7%	(6,753)	-100.0%
Adjusted EBITDA [(1)]	**68,307**	**7.4%**	**65,020**	**6.9%**	**3,287**	**5.1%**
Depreciation and amortization[(5)]	(33,537)	-3.7%	(31,237)	-3.3%	(2,300)	7.4%
Operating profit	**34,770**	**3.7%**	**27,030**	**2.9%**	**7,740**	**28.6%**
Net finance costs[(6)]	(7,574)	-0.8%	(8,078)	-0.9%	504	-6.2%
Share of losses of companies accounted for using the equity method	(110)	0.0%	(2)	0.0%	(108)	>100%
Profit before tax	**27,086**	**2.9%**	**18,950**	**2.0%**	**8,136**	**42.9%**
Income tax expense	(10,322)	-1.1%	(7,317)	-0.8%	(3,005)	41.1%
Profit for the year	**16,764**	**1.8%**	**11,633**	**1.2%**	**5,131**	**44.1%**

(*) 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 costs related to the IPO and the German Antitrust fine
(5) Includes depreciation of property, plant and equipment and investment properties and amortization of intangible assets
(6) Includes finance income and finance costs

Revenue

Revenue amounted to Euro 917,475 thousand for the year ended December 31, 2016, an increase of Euro 24,205 thousand (-2.6%) compared to the year ended December 31, 2015. This decrease is mainly due to the combined effect of:

- a decrease in the sales price of roasted coffee (-5.5%);
- the contribution of Nutricafés (acquired in September 2016) to results for the last four months in 2016 (1.3%);
- organic increase in the sales volumes of roasted coffee (1.6%); and
- the foreign currency exchange rate impact, mainly due to the fluctuations of the US dollar (0.1%).

Excluding the contribution to results of Nutricafés and the effect of the foreign exchange rate fluctuations, the decrease in revenue is mainly due to the reduction in the sale of roasted coffee (Euro 31,791 thousand or -3.8%). The decrease is mainly due to the combined effect of:

- the decrease in the sales prices of roasted coffee, which resulted in a 5.6% drop in revenue due to the reduction of the purchase price of green coffee;
- the increase in the volumes of roasted coffee sold (+1.8% on 2015). In 2016, 129.7 thousand tonnes of roasted coffee was sold (127.4 thousand in 2015), excluding the contribution of Nutricafes for the last fourth months of the year (1.5 thousand tonnes). Such increase affected all the sales channels of the Group and, in particular, the Foodservice one. Regarding the geographical area, such increase mainly related to Northern Europe (1.9 thousand tonnes) in the Mass Market channel, and Southern Europe (1.0 thousand tonnes) in all channels. Asia-Pacific and Cafés remained substantially stable (0.1 thousand tonnes), while the Americas experienced a decrease (0.7 thousand tonnes) mainly attributable to the performance of the Private Label channel, following the loss of a major customer.

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2016 and 2015, by sales channel.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2016**	**(*)**	**2015**	**(*)**	**2016-2015**	
Mass Market	343,857	37.5%	339,056	36.0%	4,801	1.4%
Foodservice	196,023	21.4%	186,690	19.8%	9,333	5.0%
Private Label	320,562	34.9%	353,450	37.5%	(32,888)	-9.3%
Other	57,033	6.2%	62,484	6.7%	(5,451)	-8.7%
Total	**917,475**	**100.0%**	**941,680**	**100.0%**	**(24,205)**	**-2.6%**

(*) Percentage of revenue

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2016 and 2015, by geographical area.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2016**	**(*)**	**2015**	**(*)**	**2016-2015**	
Americas	450,920	49.1%	487,203	51.7%	(36,283)	-7.4%
Northern Europe	171,724	18.7%	166,919	17.7%	4,805	2.9%
Southern Europe	224,668	24.5%	214,783	22.8%	9,885	4.6%
Asia-Pacific and Cafés(**)	70,163	7.6%	72,774	7.7%	(2,611)	-3.6%
Total	**917,475**	**100.0%**	**941,680**	**100.0%**	**(24,205)**	**-2.6%**

(*) Percentage of revenue
(**) This geographic area includes the revenue from café network

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 385,510 thousand for year ended December 31, 2016, an increase of Euro 20,353 thousand (5.6%) compared to the year ended December 31, 2015. This is partly due to Nutricafés' contribution, a company acquired in September 2016 (1.9%).

On a constant currency basis and consistent scope of consolidation, Gross Profit increased by Euro 13,055 thousand (3.6%). The increase is mainly due to *i)* the above-mentioned the rise in roasted coffee volumes (1.5%) and *ii)* the trends of sales prices and purchase costs of roasted coffee and green coffee (2.6%), respectively, attributable to the different mix in channels in 2016 and 2015. These factors where only partially offset by the reduction recorded by the other products (-0.5%).

EBITDA and Adjusted EBITDA

The following table provides a reconciliation between EBITDA and profit for the year ended December 31, 2016 and 2015.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2016**	**(*)**	**2015**	**(*)**	**2016-2015**	
Profit for the year	16,764	1.8%	11,633	1.2%	5,131	44.1%
Income tax expense	10,322	1.1%	7,317	0.8%	3,005	41.1%
Finance costs	7,841	0.9%	8,257	0.9%	(416)	-5.0%
Finance income	(267)	0.0%	(179)	0.0%	(88)	49.2%
Share of losses of companies accounted for using the equity method	110	0.0%	2	0.0%	108	> 100%
Depreciation and amortization[1]	33,537	3.6%	31,237	3.3%	2,300	7.4%
EBITDA[2]	**68,307**	**7.4%**	**58,267**	**6.2%**	**10,040**	**17.2%**

(*) 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 year ended December 31, 2016 and 2015:

	For the year ended December 31,				Change	
(in thousands of Euro)	**2016**	**(*)**	**2015**	**(*)**	**2016-2015**	
EBITDA[1]	68,307	7.4%	58,267	6.2%	10,040	17.2%
Costs associated with the IPO	-	0.0%	3,053	0.3%	(3,053)	-100.0%
German Antitrust fine	-	0.0%	3,700	0.4%	(3,700)	-100.0%
Adjusted EBITDA [1]	**68,307**	**7.4%**	**65,020**	**6.9%**	**3,287**	**5.1%**

(*) Percentage of revenue
(1) For additional information, refer to the Non-GAAP alternative performance indicators section

Adjusted EBITDA amounted to Euro 68,307 thousand in 2016, slightly up by Euro 3,287 thousand (+5.1%) on 2015. The result is mainly due to the aforementioned factors impacting Gross Profit, and the combined effect of:

- the contribution of Nutricafés . (acquired in September 2016) to results for the last quarter of 2016 (Euro 2,810 thousand);

- an increase in net operating costs (Euro 12,672 thousand), mainly due to greater charges incurred to develop country and global brand awareness activities and the personnel costs.

Operating profit

Operating profit amounted to Euro 34,770 thousand for the year ended December 31, 2016, a decrease of Euro 7,740 thousand (+28.6%) compared to the year ended December 31, 2015. In addition to the Adjusted EBITDA, referred to earlier, the increase is mainly attributable to *i*) to the non-recurring charges recorded in 2015 in the amount of 6,753 thousand and related ones for Euro 3,700 thousand fine imposed by the Court of Appeal in Düsseldorf and the Euro 3,053 thousand costs associated with the Company's IPO and in addition *ii*) the Euro 2,300 thousand increase in "Amortisation" (7.4%), essentially due to the Euro 1,431 thousand contribution by Nutricafés (acquired in September) to the last quarter of 2016.

Profit for the year

Profit for the year amounted to Euro 16,764 thousand for the year ended December 31, 2016, a decrease of Euro 5,131 thousand (+44.1%) compared to the year ended December 31, 2015. In addition to as previously described for operating profit, the increase is also due to the combined effect of:

- the decrease in net finance costs (Euro 504 thousand or 6.2%), due to the reduction in interest expense (Euro 1,252 thousand), partially offset by smaller next exchange rate gains;
- the increase in income taxes (Euro 3,005 thousand or 41.1%), mainly due higher taxable income generated by the Group in the fiscal year 2016 respect to 2015.

Reclassified statement of financial position

The following table shows the reclassified statement of financial position of the Group as at December 31, 2016 and 2015:

(in thousands of Euro)	As at December 31	
	2016	**2015**
Investments:		
Intangible assets	189,423	117,834
Property, plant and equipment and investment properties(1)	220,173	208,871
Investments in joint ventures and associates	10,943	138
Non-current advances and trade receivables	13,302	13,783
Deferred tax assets and other non-current assets(2)	16,662	16,911
Non-current assets (A)	**454,822**	**361,959**
Net working capital (B)(3)	**121,638**	**159,170**
Employee benefits	(9,268)	(9,624)
Other non-current provisions	(3,949)	(2,258)
Deferred tax liabilities and other non-current liabilities(4)	(32,414)	(29,889)
Non-current liabilities (C)	**(45,631)**	**(41,771)**
Net invested capital (A+B+C)	**530,829**	**479,358**
Sources:		
Equity	309,944	293,686
Net Financial Indebtedness[1]	220,885	185,672
Sources of financing	**530,829**	**479,358**

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

(1) Includes property, plant and equipment and investment properties
(2) Includes deferred tax assets and other non-current assets
(3) For additional information, refer to the Non-GAAP alternative performance indicators section.
(4) Includes deferred tax liabilities and other non-current liabilities

The following table shows the composition of Net Working Capital of the Group as at December 31, 2016 and 2015:

(in thousands of Euro)	As at December 31	
	2016	**2015**
Inventories	132,858	134,807
Trade receivables	126,081	115,950
Income tax assets	1,611	3,242
Other current assets (1)	14,512	12,272
Trade payables	(122,209)	(80,745)
Income tax liabilities	(644)	(620)
Other current liabilities	(30,571)	(25,736)
Net working capital(2)	**121,638**	**159,170**

(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, 2016 and 2015.

	For the year ended December 31,	
(in thousands of Euro)	**2016**	**2015**
Adjusted EBITDA[1]	68,307	65,020
Non-recurring items	-	(3,053)
Changes in Net Working Capital[1]	28,414	(12,570)
Net recurring investments[2]	(29,483)	(26,400)
Income tax paid	(7,753)	(7,566)
Other operating items[3]	4,270	(2,004)
Free Cash Flow[1]	**63,755**	**13,427**
Net non-recurring investments[3]	(52,055)	(6,469)
Investments in financial receivables[4]	(3,371)	225
Interest paid	(6,736)	(8,696)
Net cash generated from financing activities	17,866	8,698
Exchange gains on cash and cash equivalents	134	87
Net increase in cash and cash equivalents	**19,593**	**7,272**
Cash and cash equivalents at the beginning of the year	25,574	18,302
Cash and cash equivalents at the end of the year	**45,167**	**25,574**

Reconciliation between the captions of 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 profit and loss items not included in the Adjusted EBIDA
(4) Net non-recurring investments include business combinations, including under joint control and asset deals.
(5) Investments in financial receivables include the changes in financial receivables and interest received.

Free Cash Flow amounted to positive Euro 63,755 thousand for the year ended December 31, 2016, a decrease of Euro 50,328 thousand compared to the year ended December 31, 2015. The increase is mainly due to the Euro 40,984 thousand rise in net working capital.

The following table shows the composition of the changes in Net Working Capital for the years ended December 31, 2016 and 2015.

	For the year ended December 31,	
(in thousands of Euro)	**2016**	**2015**
Changes in inventories	6,913	(1,222)
Changes in trade receivables	(8,560)	4,776
Changes in trade payables	33,640	(2,750)
Changes in other assets/liabilities	(2,547)	(12,808)
Payments of employee benefits	(1,032)	(566)
Changes in net working capital	**28,414**	**(12,570)**

The **changes in Net Working Capital** of negative Euro 28,414 thousand for the 2016 represent an improvement of Euro 40,984 thousand compared to the year ended December 31, 2015. This improvement is mainly attributable to the Euro 36,390 thousand increase in trade payables which benefited from the change in payment terms agreed with Cofiroasters S.A. to standardize across the Group the different conditions applied previously.

Net recurring investments amounted to Euro 29,483 thousand for the year ended December 2016, show an increase of Euro 3,083 thousand compared to the year ended December 31, 2015. This increase is mainly due to *i*) the upgrading of the IT infrastructure in Northern and Southern Europe and *ii*) the purchase of a new property to expand the Company's offices.

Net non-recurring investments amounted to Euro 52,055 thousand and Euro 6,244 thousand for the year ended December 31, 2016 and 2015, respectively.

The cash flows used by net non-recurring investments in 2016 refer mainly to *i)* the acquisition of Nutricafés for Euro 38,909 thousand, net of cash acquired, *ii)* the purchase of a minority stake of 15.1% in Club Coffee for CAD 15,100 thousand (Euro 10,139 thousand), and *iii)* the acquisition of Segafredo Zanetti Worldwide Italia S.p.A. against a consideration of Euro 2,624 thousand, net of acquired cash.

The cash flow used by net non-recurring investments in 2015 relate primarily to: *i)* the payment of the consideration for the acquisition of the Boncafe companies for USD 2,975 thousand, and *ii)* the acquisition of Ceca S.A.'s assets for USD 4,200 thousand.

Net cash generated from financing activities decreased from Euro 8,698 thousand for the year ended December 31, 2015 to Euro 17,866 thousand for year ended December 31, 2016.

The cash flow generated in 2016 was mainly due to the issue of new long-term loans, which, net of repayments in the period amounted to Euro 60,006 thousand, intended to finance the acquisition of Nutricafés and the restructuring of the non-current financial debt, which involved the early repayment of some loans (for more details see note 17 "Current and non-current borrowings") of the explanatory notes to the consolidated financial statements. The cash thus generated is partly offset by the decrease in short-term loans for Euro 38,929 thousand as a result of the cash generated by operations; it is also partly offset by the payment of dividends in the amount of Euro 3,211 thousand.

The cash flow generated in 2015 was mainly due to the cash raised through the Company's capital increase, totalling Euro 67,903 thousand, net of transaction costs and partially offset by the use of cash to manage short and medium/long-term loans, amounting to Euro 51,482 thousand, mainly as a consequence of the early repayment of the loan obtained from Intesa San Paolo S.p.A. to acquire the Boncafe companies.

Net Financial Indebtedness

The following table shows the breakdown of net financial indebtedness of the Group at December 31, 2016 and at December 31, 2015, determined in accordance with the CONSOB Communication dated July 28, 2006, and in compliance with the ESMA Recommendation 2013/319:

		As at December 31	
(in thousands of Euro)		**2016**	**2015**
A	Cash and cash equivalents	(931)	(811)
B	Cash at bank	(44,236)	(24,763)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(45,167)**	**(25,574)**
E	**Current financial receivables**	**(3,495)**	**(192)**
F	Current loans	50,870	87,739
G	Current portion of non-current loans	24,952	25,291
H	Other current financial payables	1,608	70
I	**Current indebtedness (F+G+H)**	**77,430**	**113,100**
J	**Net current indebtedness (I+E+D)**	**28,768**	**87,334**
K	Non-current loans	189,393	97,787
L	Issued bonds	-	-
M	Other non-current financial payables	2,724	551
N	**Non-current indebtedness (K+L+M)**	**192,117**	**98,338**
O	**Net financial indebtedness (J+N)**	**220,885**	**185,672**

Net Financial Indebtedness amounted to Euro 220,885 thousand at 31 December 2016, a decrease of Euro 35,213 thousand compared to 31 December 2015.

The positive impact of the Free Cash Flow (Euro 63,755 thousand) on 2016 was offset by:

- the net non-recurring investments made in 2016 (Euro 52,055 thousand) and mainly related to the acquisition of Nutricafés and the equity investment in Club Coffee.;
- the consolidation of Nutricafés' financial indebtedness (Euro 34,994 thousand);
- interest paid of Euro 6,736 thousand for the year ended December 31, 2016;
- the dividends paid in the amount of Euro 3,211 thousand;
- the investments in financial receivables (Euro 3,371 thousand) and
- the impact of the Euro/USD exchange rate differences and other changes with no impact on cash flows.

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, 2016 and 2015.

	For the year ended December 31			
(in thousands of Euro)	2016		2015	
	Capital expenditure	Cash-out	Capital expenditure	Cash-out
Business combinations, including those under common control	43,645	41,916	-	2,640
Investments in associates	10,139	10,139	-	-
Intangible assets	1,698	1,698	5,059	5,059
Property, plant and equipment	30,118	29,106	26,786	26,786
Total	**85,600**	**82,859**	**31,845**	**34,485**

Business combinations including those under common control

Investments amount to Euro 43,645 thousand in the fiscal year ended on December 31, 2016 and they substantially relate to *i)* the acquisition of Nutricafés and *ii)* the acquisition of Segafredo Zanetti Worldwide Italia S.p.A. Cash disbursement in the fiscal year ended in 2015 are related to the payment of the price adjustment for the acquisition of the Boncafe companies in 2015.

Investments in associates

They amount to Euro 10,139 thousand at December 31, 2016 and refer to the acquisition of the minority stake in Club Coffee LP in 2016.

Intangible assets

The investments of the year amount to Euro 1,698 thousand and refer to software (following the upgrading of the IT infrastructure in Northern and Souther Europe), other assets and trademarks and licences.

In 2015, investments in intangible assets related principally to assets acquired from Ceca S.A., mainly trademarks, brands and commercial information, amounting to USD 3,500 thousand.

Property, plant and equipment

Capital expenditure in property, plant and equipment in 2016 amounts to Euro 30,118 thousand and relates principally to bar equipment (Euro 15,071 thousand), assets under construction (Euro 6,604 thousand) and industrial and commercial equipment and other assets (Euro 4,576 thousand).

Capital expenditure in property, plant and equipment for the year ended December 31, 2015 relates principally to bar equipment and assets under construction, amounting to Euro 13,978 thousand and

Euro 5,469 thousand, respectively, and include USD 700 thousand related to coffee roasting machinery and vehicles acquired from Ceca S.A.

Subsequent events

Please refer to Note 33 – Subsequent Events in the notes to the consolidated financial statements at December 31, 2016.

Business outlook

In view of the results achieved in the year ended December 31, 2016 and considering current market developments, expectations relating to the Group's performance for the year 2017 are as follows:

- growth in sales volumes of roasted coffee of approximately 2% -4% and consolidation of revenues from more profitable activities such as the development and marketing of the capsules and the focus on the Foodservice channel;
- increase in gross profit of approximately 5% -7%, primarily due to the focus on activities with higher margins, considering forward purchases of green coffee and the contribution by Nutricafes (acquired in September 2016);
- increase in Adjusted EBITDA of approximately 10% -12% mainly driven by the estimated increase in gross profit as well as to a general continuation of the Group's capacity to absorb its fixed costs; and
- reduction in net debt to below Euro 210,000 through cash flow generation from operating activities.

Non-GAAP alternative performance indicators

Company management evaluates the performance of the Group using certain financial and operating indicators not required by IFRS (the "Non-GAAP alternative performance indicatore"). 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 purchases of goods;
- Gross Margin is defined as the ratio of Gross Profit to revenue;
- EBITDA is defined as the profit for the year adjusted to exclude amortization and depreciation, finance income and costs, income tax expense and loss for the year from 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 inventory, trade receivables, income tax assets and other current assets (excluding financial assets), net of trade payables, income tax liabilities and other current liabilities;
- Net Invested Capital is defined by the Group 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, income tax paid and other operating items.

Related-party transactions

For details regarding related party transactions for the year ended December 31, 2016, please refer to Note 32 – Related Party Transactions of the notes to the consolidated financial statements at December 31, 2016.

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 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.

In the three months ended March 31, 2016, the Group acquired the entire share capital of Segafredo Zanetti Worldwide Italia S.p.A., a company owned directly by Massimo Zanetti, Chairman and CEO and as such a related party to MZBG ("SWZI").

Pursuant to MZBG's Procedure governing Transactions with Related Parties, the purchase of Segafredo Zanetti Worldwide Italia S.p.A. has been qualified as a “Less Significant Related-Party Transaction”. For this reason and in accordance with the Procedure, the transaction was submitted for prior assessment by MZBG’s Related Party Committee, which expressed a favourable opinion on the soundness, and substantial fairness of the terms and conditions, of the transaction.

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, 2016, issued and fully paid share capital of the Company amounted to Euro 34,300 thousand and related to 34,300,000 ordinary shares without nominal value. As at December 31, 2016 no categories of shares with voting or other rights had been issued aside from ordinary shares. In addition, no financial instruments that provide the right to subscribe newly issued shares had been issued.

On the basis of communications provided pursuant to Article 120 of the Consolidated Law on Finance and other information in the possession of the Company, the significant equity investments in the share capital of the Company as of December 31, 2016, are as follows: i) MZ Industries S.A. 66.689% and ii) Invesco Ltd 3.041%.

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.

The "PurPod100™" technology was launched on the US single serve market. This technology was developed by the Canada-based Club Coffee (in which the Group holds a 15.1% interest). It is certified by the Biodegradable Product Institute of New York and ensures the full compostability of the product which may be entirely processed by municipal composting plants in five weeks.

As of December 31, 2016 the number of employees of the Group amounted to 3,266 with an increase of 195 compared to December 31, 2015. The following table shows the evolution of the number of employees employed by the Group as at December 31, 2016 and 2015, broken down by main categories.

	Average number of employees during the year		**Number of employees as at December 31**	
(no.)	**2016**	**2015**	**2016**	**2015**
Executives	120	117	118	121
Managers and white collar staff	1,759	1,677	1,825	1,693
Blue-collar workers	1,290	1,220	1,323	1,257
Total	**3,169**	**3,014**	**3,266**	**3,071**

The following table shows the breakdown by major geographical area of the Group's employees as at December 31, 2016 and 2015.

	As at December 31	
(no.)	**2016**	**2015**
Americas	884	952
Northern Europe	532	529
Southern Europe	902	698
Asia-Pacific and Cafés	948	892
Total	**3,266**	**3,071**

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

As at December 31, 2016 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 these consolidated financial statements is comprised of 9 officers, of which three are non-executive and three independent, nominated at the shareholders meeting of July 15, 2014. The officers will remain in office for three years, until the shareholders meeting for the approval of the December 31, 2016 financial statements.

Appointment and Remuneration Committee
The Appointment 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 is responsible for assisting the Board of Directors, with proactive and consultative functions of investigation, in its evaluations and decisions on the system of internal control and risk management, as well as those relating to the approval of periodic financial reports.

In support of the internal control and risk management system of the Issuer, the Company's 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 entity in order to start the analysis and implementation of control.

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 July 15, 2014 for the 2014-2016 term. The officers will remain in office for three years, until the shareholders meeting for the approval of the December 31, 2016 financial statements.

Officer in charge of financial reporting
On July 15, 2014, the Board of Directors, after consultation with the Board of Statutory Auditors, appointed Massimo Zuffi as manager responsible for preparing the company's financial statements, effective as from the date of commencement of trading of the Company's shares on the MTA.

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 resolution dated March 8, 2016.

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 2016 - 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 period control activities on the compliance with the aforementioned requirements in time.

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, the Group may not be able to maintain these business relationships with existing major customers in the future, or develop new ones. The Group may also be need to replace and/or modify the agreements currently in place with one or more of its main customers, which could negative affect the Group's growth prospects as well as its results and financial position.

Risk related to legal proceedings
At the date of this report, 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.

See Note 19 – “Other Non-Current Provisions” of the explanatory notes to the consolidated financial statements for further details.

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 borrowings 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: purchases of green coffee (the main raw material used by the Group), which are typically denominated in USD; the Group's subsidiaries with a functional currency other than the Euro, including the following 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, as considered appropriate, 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 unfavorable fluctuations 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).

See 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 year 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, 2015, 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. As regards 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 verifications revealed the existence of an adequate administrative and accounting system and the additional requirements envisaged in said 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 Company

Reclassified income statement of the Company for the years ended December 31, 2016 and 2015

The following table sets forth the reclassified income statement of the Company for the years ended December 31, 2016 and 2015.

	For the year ended December 31				Change	
(in thousands of Euro)	**2016**	**(*)**	**2015**	**(*)**	**2016-2015**	
Revenue	6,607	100.0%	9,273	100.0%	(2,666)	-28.7%
Purchases of goods	(49)	-0.7%	(46)	-0.5%	(3)	6.0%
Purchases of services, leases and rentals	(4,503)	-68.2%	(3,432)	-37.0%	(1,071)	31.2%
Personnel costs	(5,368)	-81.2%	(2,354)	-25.4%	(3,014)	> 100%
Other operating costs, net[1]	20	0.3%	(3,161)	-34.1%	3,181	> -100%
EBITDA[2]	**(3,292)**	**-49.8%**	**280**	**3.0%**	**(3,572)**	**> -100%**
Non recurring items[3]	-	0.0%	3,053	32.9%	(3,053)	> -100%
Adjusted EBITDA [2]	**(3,292)**	**-49.8%**	**3,333**	**35.9%**	**(6,625)**	> -100%
Amortization and depreciation [4]	(637)	-9.6%	(522)	-5.6%	(115)	22.0%
Operating profit	**(3,929)**	**-59.4%**	**(242)**	**-26%**	**(3687)**	**> 100%**
Net finance income (costs)[4]	11,216	169.8%	(2,081)	-22.4%	13,297	> -100%
Profit before tax	**7,287**	**110.4%**	**(2,323)**	**-25.1%**	**9610**	**> -100%**
Income tax expense	922	14.0%	2,665	28.7%	(1,743)	-65.4%
Profit for the year	**8,209**	**124.4%**	**342**	**-23.7%**	**7867**	**> 100%**

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 costs associated with the IPO
(4) Includes amortisation of intangible and depreciation of property, plant and equipment
(5) Includes finance income and finance costs

Reclassified statement of financial position of the Company as at December 31, 2016

The following table shows the reclassified statement of financial position of the Company as at December 31, 2016 and 2015.

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Investments:		
Intangible assets	478	381
Property, plant and equipment	13,853	12,016
Investments in subsidiaries	248,175	180,067
Non-current financial receivables	56,448	33,696
Deferred tax assets	3,356	3,639
Non-current assets (A)	**322,311**	**229,799**
Net Working Capital [(1)]	**(3,244)**	**417**
Employee benefits	(261)	(242)
Deferred tax liabilities and other non-current liabilities[(2)]	(1,174)	(1,954)
Non-current liabilities (C)	**(1,435)**	**(2,196)**
Net invested capital (A+B+C)	**317,633**	**228,020**
Sources:		
Equity	156,565	151,454
Net Financial Indebtedness[(1)]	161,067	76,566
Sources of financing	**317,633**	**228,020**

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 Company at December 31, 2016 and 2015, 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)	**2016**	**2015**
A	Cash and cash equivalents	(3)	(5)
B	Cash at bank	(18,693)	(1,033)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(18,696)**	**(1,038)**
E	**Current financial receivables**	**(6,023)**	**(1,969)**
F	Current loans	5,999	8,497
G	Current portion of non-current loans	14,460	6,697
H	Other current financial payables	9,484	21,403
I	**Current indebtedness (F+G+H)**	**29,943**	**36,597**
J	**Net current indebtedness (I+E+D)**	**5,224**	**33,590**
K	Non-Current loans	154,971	42,976
L	Issued bonds	-	-
M	Other non-current financial payables	873	-
N	**Non-current indebtedness (K+L+M)**	**155,844**	**42,976**
O	**Net financial indebtedness (J+N)**	**161,067**	**76,566**
	of which due to third parties	*157,607*	*57,132*
	of which due to related parties	*3,461*	*19,434*

Reconciliation of the Company 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 and for the year ended December 31, 2016 *(in thousands of Euro)*	**Equity**	**Profit for the Period**
Figures from the annual financial statements of Massimo Zanetti Beverage Group S.p.A.	**156,565**	**8,209**
Difference between carrying amount and pro rata value of shareholders' equity of investments	137,025	-
Pro rata results of subsidiaries	-	30,330
Elimination of intercompany dividends	-	(21,678)
Elimination of intercompany profit	(2,726)	(97)
Currency translation differences	19,080	-
Figures from the consolidated financial statements	**309,944**	**16,764**

Proposed resolution concerning net income 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. as of December 31, 2016 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 as of December 31, 2016,

hereby resolve

1. to approve the separate financial statements of Massimo Zanetti Beverage Group S.p.A. as of December 31, 2016;

2. to approve the following allocation of the net income of Massimo Zanetti Beverage Group S.p.A. as of December 31, 2016 totalling Euro 8,208,832:
   - Euro 410,442 to the legal reserve;
   - Euro 5,145,000 to be distributed as dividends, specifically a Euro 0.15 per each dividend-bearing share; and

3. Euro 2,653,390 to retained earnings

On behalf of the Board of Directors
President and CEO

Massimo Zanetti

Villorba (Treviso), March 1, 2017

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

Consolidated Income Statement

	Note	For the year ended December 31,	
(in thousands of Euro)		**2016**	**2015**
Revenue	**21**	917,475	941,680
Other income	**22**	7,270	6,109
Purchases of goods	**23**	(531,965)	(576,523)
Purchases of services, leases and rentals	**24**	(175,054)	(169,967)
Personnel costs	**25**	(138,749)	(127,777)
Other operating costs	**26**	(6,558)	(11,529)
Amortization, depreciation and impairment	**27**	(37,649)	(34,963)
Operating profit		**34,770**	**27,030**
Finance income	**28**	267	179
Finance costs	**28**	(7,841)	(8,257)
Share of losses of companies accounted for using the equity method	**10**	(110)	(2)
Profit before tax		**27,086**	**18,950**
Income tax expense	**29**	(10,322)	(7,317)
Profit for the year		**16,764**	**11,633**
Profit attributable to:			
Non-controlling interests		*178*	*138*
Owners of the parent		*16,586*	*11,495*
Earnings per share basic / diluted (in Euro)	**30**	**0.48**	**0.36**

The accompanying notes are an integral part of the Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

	For the year ended December 31,	
(in thousands of Euro)	**2016**	**2015**
Profit for the year	**16,764**	**11,633**
Gains/(Losses) from cash flow hedges	454	(250)
Losses on net investment hedges	-	(3,688)
Currency translation differences	3,695	10,595
Items that may be subsequently reclassified to profit or loss	**4,149**	**6,657**
Remeasurements of employee benefit obligations	(70)	42
Items that will not be reclassified to profit or loss	**(70)**	**42**
Total comprehensive income for the year	**20,843**	**18,332**
Comprehensive income attributable to non-controlling interests	176	140
Comprehensive income attributable to owners of the parent	**20,667**	**18,192**

The accompanying notes are an integral part of the Consolidated Financial Statements

Consolidated Statement of Financial Position

(in thousands of Euro)	Note	As at December 31	
		2016	**2015**
Intangible assets	**7**	189,423	117,834
Property, plant and equipment	**8**	220,173	208,871
Investment properties	**9**	4,319	4,422
Investments in joint ventures and associates	**10**	10,943	138
Advances and non-current trade receivables	**11**	13,302	13,783
Deferred tax assets	**12**	9,799	11,046
Other non-current assets	**13**	6,863	5,865
Total non-current assets		**454,822**	**361,959**
Inventories	**14**	132,858	134,807
Trade receivables	**11**	126,081	115,950
Income tax assets		1,611	3,242
Other current assets	**13**	18,007	12,464
Cash and cash equivalents	**15**	45,167	25,574
Total current assets		**323,724**	**292,037**
Total assets		**778,546**	**653,996**
Share capital		34,300	34,300
Other reserves		124,738	121,803
Retained earnings		149,057	135,786
Equity attributable to owners of the parent		**308,095**	**291,889**
Non-controlling interests		1,849	1,797
Total equity	**16**	**309,944**	**293,686**
Non-current borrowings	**17**	192,117	98,338
Employee benefits	**18**	9,268	9,624
Other non-current provisions	**19**	3,949	2,258
Deferred tax liabilities	**12**	29,069	24,008
Other non-current liabilities	**20**	3,345	5,881
Total non-current liabilities		**237,748**	**140,109**
Current borrowings	**17**	77,430	113,100
Trade payables		122,209	80,745
Income tax liabilities		644	620
Other current liabilities	**20**	30,571	25,736
Total current liabilities		**230,854**	**220,201**
Total liabilities		**468,602**	**360,310**
Total equity and liabilities		**778,546**	**653,996**

The accompanying notes are an integral part of the Consolidated Financial Statements

Consolidated Statement of Cash Flows

(in thousands of Euro)	**Note**	**For the year ended December 31,**	
		2016	**2015**
Profit before tax		**27,086**	**18,950**
Adjustments for:			
Amortization, depreciation and impairment	**27**	37,649	34,963
Provisions for employee benefits and other charges	**26**	1,050	383
Finance costs	**28**	7,574	8,080
Other non-monetary items		(782)	(2,413)
Net cash generated from operating activities before changes in net working capital		**72,577**	**59,963**
Decrease/(Increase) in inventories	**14**	6,913	(1,222)
Decrease/(Increase) in trade receivables	**11**	(8,560)	4,776
Incresase/(Decrease) in trade payables		33,640	(2,750)
Changes in other assets/liabilities	**13/20**	(2,547)	(12,808)
Payments of employee benefits	**18**	(1,032)	(566)
Interest paid	**28**	(6,736)	(8,696)
Income tax paid		(7,753)	(7,566)
Net cash generated from operating activities		**86,502**	**31,131**
Acquisition of subsidiary, net of cash acquired	**5**	(39,292)	(2,640)
Acquisition under common control, net of cash acquired	**5**	(2,624)	-
Purchase of property, plant and equipment	**8**	(29,106)	(26,786)
Purchase of intangible assets	**7**	(1,698)	(5,059)
Proceeds from sale of property, plant and equipment	**8**	1,266	722
Proceeds from sale of intangible assets	**7**	55	894
Investments in joint venture and associates	**10**	(10,139)	-
Increase in financial receivables		(3,403)	(24)
Interest received		32	249
Net cash used in investing activities		**(84,909)**	**(32,644)**
Proceeds from long-term borrowings	**17**	154,233	43,448
Repayment of long-term borrowings	**17**	(94,227)	(94,930)
Decrease in short-term borrowings		(38,929)	(7,621)
Share capital increase	**16**	-	67,903
Dividends paid	**16**	(3,211)	(102)
Net cash generated from financing activities		**17,866**	**8,698**
Exchange gains on cash and cash equivalents		134	87
Net increase in cash and cash equivalents		**19,593**	**7,272**
Cash and cash equivalents at the beginning of the year		25,574	18,302
Cash and cash equivalents at the end of the year		**45,167**	**25,574**

The accompanying notes are an integral part of the Consolidated Financial Statements

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
At December 31, 2014	**28,000**	**51,708**	**126,567**	**206,275**	**1,759**	**208,034**
Profit for the year	-	-	11,495	11,495	138	**11,633**
Remeasurements of employee benefit obligations	-	-	40	40	2	**42**
Losses from cash flow hedges	-	(250)	-	(250)	-	**(250)**
Losses from net investment hedges	-	(3,688)	-	(3,688)	-	**(3,688)**
Currency translation differences	-	10,595	-	10,595	-	**10,595**
Total comprehensive income for the year	**-**	**6,657**	**11,535**	**18,192**	**140**	**18,332**
Shareholders transactions	-	-	-	-	-	
Increase in share capital, net of transaction costs	6,300	62,918	-	69,218	-	**69,218**
Other changes	-	-	(1,796)	(1,796)	-	**(1,796)**
Dividends paid to non-controlling interests	-	-	-	-	(102)	**(102)**
Reclassifications	-	520	(520)	-	-	**-**
As of December 31, 2015	**34,300**	**121,803**	**135,786**	**291,889**	**1,797**	**293,686**
Profit for the year	-	-	16,586	16,586	178	**16,764**
Remeasurements of employee benefit obligations	-	-	(68)	(68)	(2)	**(70)**
Gain from cash flow hedges	-	454	-	454	-	**454**
Currency translation differences	-	3,695	-	3,695	-	**3,695**
Total comprehensive income for the year	**-**	**4,149**	**16,518**	**20,667**	**176**	**20,843**
Shareholders transactions						
Acquisition of Segafredo Zanetti World Wide S.p.A.	-	-	(1,374)	(1,374)	-	**(1,374)**
Dividends paid	-	(3,087)	-	(3,087)	(124)	**(3,211)**
Reclassifications	-	1,873	(1,873)	-	-	**-**
As of December 31, 2016	**34,300**	**124,738**	**149,057**	**308,095**	**1,849**	**309,944**

The accompanying notes are an integral part of the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1. General information

Massimo Zanetti Beverage Group S.p.A. (the "**Company**"), 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. (hereinafter also referred to as "**MZ Industries**"), based in Luxembourg.

The Company and its subsidiaries (hereinafter referred to as 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 (stock market) 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, 2016 ("**Consolidated Financial Statements**"), approved by the Company's Board of Directors on March 1, 2017, 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 2.5 *"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 reported in the income statement for the year, as required or allowed by IFRS, such as gains/losses from cash flow hedges, remeasurement of employee benefit obligations and currency translation differences; and
- 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 entities included within the scope of consolidation as of December 31, 2016 and 2015 are listed in appendix 1.
See Note 5 *“Business Combinations”*for further information about the principal changes in the scope of consolidation during the years ended December 31, 2016 and 2015.

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 refer to those entities in which the Group has significant influence. Such companies have been acquired through an equity method applied similarly to what was described for the joint ventures.

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

(in thousands of Euro)	For the year ended December 31 2016	2015
Assets	54,761	458
Liabilities	36,215	213
Revenue	77,713	696
Loss for the year	(354)	(3)

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 non-Euro financial statements of subsidiaries at December 31, 2016 and 2015:

Currency		Average exchange rate for the year ended December 31		Exchange rate as at December 31		
		2016	2015	2016	2015	2014
US Dollar	USD	1.11	1.11	1.05	1.09	1.21
Australian Dollar	AUD	1.49	1.48	1.46	1.49	1.48
Japanese Yen	JPY	120.31	134.29	123.40	131.07	145.23
Swiss Franc	CHF	1.09	1.07	1.07	1.08	1.20
Brasilian Real	BRL	3.86	3.69	3.43	4.31	3.22
British Pound	GBP	0.82	0.73	0.86	0.73	0.78
Costarican Colon	CRC	601.67	593.18	580.81	585.64	655.72
Argentine Peso	ARS	16.33	10.25	16.75	14.10	10.28
Danish Crown	DKK	7.45	7.46	7.43	7.46	7.45
Polish Zloty	PLN	4.36	4.18	4.41	4.26	4.27
Chilean Peso	CLP	748.65	725.70	704.95	772.71	737.30
Czech Koruna	CZK	27.03	27.29	27.02	27.02	27.74
Mexican Peso	MXN	20.65	17.60	21.77	18.91	17.87
New Zealander Dollar	NZD	1.59	1.59	1.52	1.59	1.55
Singapore Dollar	SGD	1.53	1.53	1.52	1.54	1.61
Thai Bhat	THB	39.04	38.00	37.73	39.25	39.91
United Arab Emirates Dinar	AED	4.06	4.07	3.87	4.00	4.46
Malaysian Ringgit	MYR	4.58	4.33	4.73	4.70	4.25
Vietnamese Dong	VND	24,747.87	24,314.57	23,991.84	24,475.10	25,972.10
Croatian Kuna	HRK	7.53	7.61	7.56	7.64	7.66
Hong Kong Dollar	HKD	8.59	8.60	8.18	8.44	9.42
Romanian Leu	RON	4.49	4.45	4.54	4.52	n.a.
Hungarian Forint	HUF	311.46	309.90	309.83	315.98	315.54
Canadian Dollar	CAD	1.47	n.a.	1.42	n.a.	n.a.

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. Borrowing 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 and bar equipment	8
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 installments are charged to the income statement on a straight-line basis over the lease term.

Biological assets

Coffee plantations held by the green coffee business 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 classified as property, plant and equipment related to discontinued operations and are recorded at purchase or production cost, and stated 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 derecognized 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 borrowing costs incurred during and for the development of intangible assets are deemed part of their purchase cost. The following intangible assets exist within the Group:

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.

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	End of the contract

Impairment of intangible assets and property, plant and equipment

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 writedown 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.

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

At each balance sheet 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 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.

Trade receivables and other financial assets

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 derecognized from the statement of financial position and charged against the provision 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 labor 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. Bank overdrafts at the

balance sheet date are reported as current borrowings within 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 accounted for at the lower of their book value 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 balance sheet 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 hedges against exchange rate risks considered highly likely to occur. 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 cash flow hedge 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 unfavorable 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 reserves in equity, thereby offsetting movements in the currency translation reserve relating to net investments in foreign assets. 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 IAS 39, 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 IAS 39, paragraph 5.
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. Such cases do occur in the green coffee business. Although in such cases the Group's ultimate objective is to hedge against the risk of movements in coffee prices, from an accounting viewpoint such contracts do not qualify as hedge contracts and therefore the related changes in fair value are accounted for in the income statement.

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 recognized 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 recognize 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 recognizes such plans as if they were defined contribution plans. The liability that would arise on leaving such plans is not recognized, as the likelihood of such event is considered remote at the reporting date.

Provisions

Provisions are recognized 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 recognized 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

Revenues are recognized at the fair value of the consideration received from the sale of goods and services in the ordinary course of business. Revenues are stated net of value-added tax, expected returns, allowances, discounts and certain marketing activities arranged together with customers, where the value depends on the revenue generated.
Revenues from the sale of goods are recognized when the risks and rewards of owning the asset are transferred to the purchaser, the selling price is agreed or determinable and collection is expected.

Cost recognition

Costs are recognized 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 recognizes 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 recognized, 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 recognized 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 recognized 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.

2.5 Recently-issued accounting standards

Accounting standards, amendments and interpretations adopted by the Group at January 1, 2016
The Group applied for the first time the following accounting standards, amendments and interpretations as of January 1, 2016:

- amendment to IFRS 11 – *Joint Arrangements – "Accounting for acquisitions of interests in joint operations"* related to the recognition of the acquisition of interests in a joint operation that is a business;
- amendments to IAS 16 – *Property, plant and equipment* and IAS 41 – *Agriculture – "Bearer Plants"* related to the accounting treatment of bearer plants in accordance with IAS 16 instead of IAS 41;
- amendments to IAS 16 - *Property, plant and Equipment* and IAS 38 – *Intangibles Assets – "Clarification of acceptable methods of depreciation and amortisation",* which clarify that generally the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset;

- amendment to IAS 1 – "*Disclosure Initiative*" which clarifies, inter alia, that materiality applies to the disclosure provided in the financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures;
- amendment to IFRS 10 – *Consolidated Financial Statements*, IFRS 12 – *Disclosure of interests in other entities* and IAS 28 – *Investments in associates e joint ventures* - "*Investment Entities: Applying the Consolidation Exception*" related to the changes due to the application of the consolidation exception granted to investment entities;
- "*Annual Improvements to IFRSs: 2010-2012 Cycle*" and "*Annual Improvements to IFRSs: 2012-2014 Cycle*" which partially integrate the standards pre-existing in the annual improvement process of IFRS.

The application of the above standards and interpretations had no significant effects on the Consolidated Financial Statements.

Accounting standards, amendments and interpretations, endorsed by the European Union, whose application is not yet mandatory and that the Group decided not to adopt early

The followings standards have been issued by the IASB and endorsed by the European Union but are not yet effective and not adopted by the Company.

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers,* subsequently integrated in April 2016 by amendments not yet endorsed by the European Union. The aim is to improve the quality and consistency of revenue recognition. Under this standard, revenue shall be recognised by presenting in the best manner possible the fact that the performance obligations identified in contracts with customers have been met. The standard introduces a decision-making process comprised of five stages underlying revenue recognition.

In July 2014, the IASB issued the complete version of IFRS 9 – *Financial Instruments* introducing significant changes to the classification, measurement and recognition of financial assets and liabilities, the impairment of financial assets and hedge accounting. The standard is expected to apply from the year beginning on January 1, 2018. However, early application is permitted.

The Group is currently considering the implementation approach and the accounting impact of the introduction of the above standards.

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

At the reporting date, the competent bodies of the European Union had not yet completed the endorsement process required to adopt the following standards and amendments.

In January 2016, the IASB issued IFRS 16 – *Leases*, which will replace IAS 17 – *Leases* and IFRIC 4, SIC-15 and SIC-27, introducing a single measurement and recognition model of leases for the lessee which, subject to certain exceptions, provides for the recognition of the leased asset and the related liability. This standard should be applied as of January 1, 2019. However, early application is permitted, but only for companies which adopted early IFRS 15 - *Revenue from Contracts with Customers*. The Group is currently considering the implementation approach and the accounting impact of the introduction of the above standard.

In January 2014, the IASB issued IFRS 14 – *Regulatory deferral accounts,* whereby IFRS first-time adopters may continue to recognise the amounts related to the rate regulation in accordance with the previous GAAP. In order to improve the comparability with the entities that already apply IFRS and which do not recognise these amounts, the standard requires the separate presentation of the rate regulation effect from the other items. The endorsement process has been suspended pending the new standard on rate-regulated activities.

In September 2014, the IASB issued an amendment to IFRS 10 - *Consolidated Financial Statements* and IAS 28 - *Investments in associates and joint ventures* – "*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture"*, in order to resolve the current conflict about the measurement of the profit or loss arising from sale or contribution of a non-monetary asset to a joint venture or associate in return for an interest in the latter's capital. At present, the IASB has suspended the application of this amendment which was postponed until completion of the IASB project on the equity method.

In January 2016, the IASB issued amendments to IAS 12 – *Income Taxes* and IAS 7 – *Statement of Cash Flows* related to some clarifications about the recognition of deferred taxes on debt instruments measured at fair value and the disclosure to be provided about changes to financial liabilities, respectively. These amendments are expected to apply from the year beginning on January 1, 2017.

In June 2016, the IASB issued amendments to IFRS 2 – *Share-based payments* which introduced, inter alia, some requirements about the accounting treatment of vesting and non-vesting conditions in the measurement of cash-settled plans and changes to the classification as cash-settled and equity-settled plans. These amendments are expected to apply from the year beginning January 1, 2018.

In September 2016, the IASB issued an amendment to IFRS 4 – *Insurance Contracts* which reflects some accounting consequences due to the implementation of IFRS 9 – *Financial Instruments* pending the preparation of the standard that will replace IFRS 4. This amendment will be applicable from the year beginning January 1, 2018.

In December 2016, the IASB issued:

- "*Annual Improvements to IFRSs: 2014-2016 Cycle*" which partially integrate the standards pre-existing in the annual improvement process of IFRS. These amendments apply from the year beginning January 1, 2018;
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* which sets the exchange rate to be used in transactions providing for foreign currency advances to be paid or collected. This interpretation is expected to apply from the year beginning January 1, 2018; and
- amendment to IAS 40 – *Investment property* which clarifies the requirements to recognise transfers from/to "investment property". The amendment is expected to apply from the year beginning January 1, 2018.

Except for that set out in relation to IFRS 16, the Group will adopt the new standards and amendments according to the expected application date, and will consider the potential impacts on the consolidated financial statements, once these are endorsed by the European Union.

2.6 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 2016 was affected by the acquisition of Nutricafés and the related financing transactions. The total price paid for the acquisition was Euro 40,459 thousand. The price was covered by long-term loans granted to the Group by the banking system. The acquired company's results were consolidated starting from September 2016. For additional information, reference should be made to notes 5 "Business Combinations" and 16 "Current and non-current borrowings".

The Group's results for 2015 were impacted by non-recurring charges, classified under "Other operating costs". The Euro 6,753 thousand balance includes:

- Euro 3,700 thousand related to the fine imposed by the Court of Appeal in Düsseldorf;

- expenses incurred in relation to the IPO of Euro 3,053 thousand not attributable to the share capital increase.

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 centralized 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 operational viewpoint, the instruments used by the Group are deemed of a hedging nature.

The notional value of interest rate swaps outstanding as at December 31, 2016 totalled Euro 23,476 thousand (Euro 48,166 thousand as at December 31, 2015). Interest rate swaps outstanding as at December 31, 2016 had a negative fair value of Euro 1,806 thousand (negative fair value of Euro 3,070 thousand as at December 31, 2015).

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, 2016 and 2015. Where necessary, interest rate swaps are entered into to turn it to fixed interest rates. In the second half of 2016, as part of the restructuring of long-term borrowings, the interest rate swaps in place were deemed no longer in line with the current market conditions and, as decided by Group management, were progressively terminated early. Following the termination of the above contracts, the exposure to interest rate fluctuations, subject to constant monitoring by management, rose from 59% to 89% at December 31, 2015 and 2016, respectively.

An increase/decrease of 1% (100 basis points) in interest rates compared to those applicable as at December 31, 2016 and 2015, 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 1,915 thousand in 2016 and Euro 730 thousand in 2015.

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 maturities of outstanding forward contracts do not exceed 12 months.

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 as at December 31, 2016 was Euro 21,309 thousand (Euro 26,658 thousand as at December 31, 2015). Forward contracts outstanding as at December 31, 2016 had a positive fair value of Euro 1,097 thousand (positive fair value of Euro 431 at December 31, 2015).
In order to reduce the exchange rate risk deriving from unfavorable 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. Losses of Euro 3,688 thousand were recognised in the statement of comprehensive income for 2015, net of the tax effect. These losses are mainly due to the hedged financing that was entirely repaid at December 31, 2015. No hedges were in place at December 31, 2016.

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 risk 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, see 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) as they do not qualify as hedge contracts.

The value of outstanding contractual obligations for which the own use exemption conditions applied amounted to Euro 219,495 thousand at December 31, 2016 (Euro 196,622 thousand at December 31, 2015).

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 current and non-current trade receivables analyzed by channel at December 31, 2016 and 2015:

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Mass Market	68,082	58,429
Foodservice	62,924	63,602
Others	8,377	7,702
Total	**139,383**	**129,733**
of which		
Trade receivables	*126,081*	*115,950*
Advances and non-current trade receivables	*13,302*	*13,783*

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

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

Other: 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. See Note 11 "*Current and Advances and non-Current Trade Receivables* "for further information about the provision for impairment.

The following table sets forth an aging analysis of current and non-current trade receivables at December 31, 2016 and 2015, net of the provision for impairment:

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Not due	105,466	99,436
Past due 0-90 days	21,193	18,428
Past due 91-180 days	2,557	2,329
Past due over 180 days	10,167	9,540
Total	**139,383**	**129,733**

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.

As at December 31, 2016 the Group had lines of credit totaling Euro 223,444 thousand (Euro 204,913 thousand at December 31, 2015), arranged with various banks to cover overdraft requirements.

The undrawn portion of such credit lines at December 31, 2016 totalled Euro 170,977 thousand (Euro 127,229 thousand at December 31, 2015).

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, 2016 and 2015:

As of December 31, 2016 *(in thousands of Euro)*	**Book Value**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	269,547	80,915	150,480	49,919
Derivatives on interest rates	1,806	664	1,142	
Trade payables and other liabilities	125,796	124,228	1,568	-
Total	**397,149**	**205,807**	**153,190**	**49,919**

As of December 31, 2015 *(in thousands of Euro)*	**Book Value**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	211,438	118,110	98,066	8,487
Derivatives on interest rates	3,070	703	2,367	-
Trade payables and other liabilities	84,640	83,072	1,568	-
Total	**299,148**	**201,885**	**102,001**	**8,487**

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

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 Consolidated Financial Statements at December 31, 2016 and 2015, 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 as at December 31, 2016 and 2015:

As of December 31, 2016 *(in thousands of Euro)*	**Loans and receivables**	**Investments held to maturity**	**Asset / liabilities at fair value**	**Hedging derivatives at fair value**	**Total financial assets / liabilities**	**Non-financial assets / liabilities**	**Total**
Assets							
Current and non-current advances and trade receivables	139,383	-	-	-	**139,383**	-	**139,383**
Other current and non-current assets	11,985	-	-	1,097	**13,082**	11,788	**24,870**
Cash and cash equivalents	45,167	-	-	-	**45,167**	-	**45,167**
Total assets	**196,535**	**-**	**-**	**1,097**	**197,632**	**11,788**	**209,420**
Liabilities							
Current and non-current borrowings	269,547	-	-	-	**269,547**	-	**269,547**
Trade payables	122,209	-	-	-	**122,209**	-	**122,209**
Other Current and Non-Current Liabilities	3,587	-	1,806	-	**5,393**	28,523	**33,916**
Total liabilities	**395,343**	**-**	**1,806**	**-**	**397,149**	**28,523**	**425,672**

As of December 31, 2015 (in thousands of Euro)	Loans and receivables	Investments held to maturity	Asset / liabilities at fair value	Hedging derivatives at fair value	Total financial assets / liabilities	Non-financial assets / liabilities	Total
Assets							
Current and non-current advances and trade receivables	129,733	-	-	-	**129,733**	-	**129,733**
Other current and non-current assets	7,476	-	-	431	**7,907**	10,422	**18,329**
Cash and cash equivalents	25,574	-	-	-	**25,574**	-	**25,574**
Total assets	**162,783**	**-**	**-**	**431**	**163,214**	**10,422**	**173,636**
Liabilities							
Current and non-current borrowings	211,438	-	-	-	**211,438**	-	**211,438**
Trade payables	80,745	-	-	-	**80,745**	-	**80,745**
Other Current and Non-Current Liabilities	3,895	-	3,070	-	**6,965**	24,652	**31,617**
Total liabilities	**296,078**	**-**	**3,070**	**-**	**299,148**	**24,652**	**323,800**

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 for financial assets and liabilities that are measured at fair value as at December 31, 2016 and 2015:

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 of December 31, 2016 (in thousands of Euro)	Level 1	Level 2	Level 3	Total
Assets				
Current derivatives on exchange rates	-	1,097	-	1,097
Total	**-**	**1,097**	**-**	**1,097**
Liabilities				
Derivatives on interest rates	-	1,806	-	1,806
Total	**-**	**1,806**	**-**	**1,806**

As of December 31, 2015 (in thousands of Euro)	Level 1	Level 2	Level 3	Total
Assets				
Current derivatives on exchange rates	-	431	-	431
Total	**-**	**431**	**-**	**431**
Liabilities				
Derivatives on interest rates	-	3,070	-	3,070
Total	**-**	**3,070**	**-**	**3,070**

The fair value of derivative instruments in place at December 31, 2016 and 2015 is measured in accordance with Level 2 as described above.

Financial instruments with a Level 2 fair value include derivatives that qualify for hedge accounting and other derivative instruments designed to reduce exposure to economic risks. Derivative instruments 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, 2016 and 2015. 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 characterize 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 judgment 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 writedown 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 judgment 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 judgments 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 other charges***

Provisions are recognized 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) ***Provision for impairment***

The provision 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. In order to estimate the future defined benefit liability, the application of various assumptions is required and 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 17 – "Employee Benefits" and in Note 24 – "Personnel Costs".

5. Business Combinations

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

2016
In September the Group, through its subsidiary Segafredo Zanetti Portugal S.A., completed the purchase of 100% of the capital in Nutricafés, one of the main coffee market operators in Portugal. This acquisition will allow the Group to achieve synergies with the operations already present in the Iberian peninsula, also relying on the local coffee roasting plant which will serve the Spanish and Portuguese markets. This acquisition is part of the Group's strategy, which aims to develop further the Foodservice channel and the single serve range.

The total price paid for the acquisition was Euro 40,459 thousand, inclusive of the price adjustment made to account for the difference between the company's net working capital as at July 31, 2016 and the same-date theoretical value of the acquired company estimated during the negotiation. The price

was covered by long-term loans granted to the Group by the banking system (for more information on this point, please see note 17 "Current and Non-Current Borrowings").

The contribution to revenue and the operating profit of these financial statements was Euro 11,924 thousand and Euro 1,366 thousand, respectively. The acquired company was consolidated starting from September 2016.

The following table provides a comparison between the amount paid and the provisional fair value of the net assets acquired:

(in thousands of Euro)	**Provisional fair value - initial recognition**	**Fair value adjustment**	**Provisional Fair value**
Intangible assets	10,340	21,889	32,229
Property, plant and equipment	8,235	-	8,235
Other assets	890	(318)	572
Deferred tax assets/(liabilities)	628	(5,098)	(4,470)
Inventory	3,365	-	3,365
Trade receivables	5,165	(1,177)	3,988
Cash and cash equivalents	1,550	-	1,550
Other non-current provisions	(85)	(1,200)	(1,285)
Borrowings	(34,994)	-	(34,994)
Trade payables	(6,083)	-	(6,083)
Other liabilities	(2,319)	-	(2,319)
Net assets acquired	**(13,308)**	**14,096**	**788**
Consideration paid	(40,459)	-	(40,459)
Provisional goodwill	**53,767**	**(14,096)**	**39,671**

Segafredo Zanetti Worldwide Italia S.p.A.

In February 2016, the Group acquired the entire share capital of Segafredo Zanetti Worldwide Italy S.p.A., a company owned directly by Massimo Zanetti, Chairman and CEO of the Company, active mainly in the commercial franchising of operators in the Foodservice channel. The agreed purchase price amounts to Euro 2,800 thousand on the basis of an independent expert's valuation.

This acquisition is described as "*under common control*" and therefore the acquired assets and liabilities were recognised based on their historical carrying amounts, without recognising any gains.

The following table provides a comparison between the amount paid and the carrying amount of the net assets acquired:

(in thousands of Euro)	**Carrying amount**
Intangible assets	500
Property, plant and equipment	629
Other assets	1,372
Deferred tax assets	52
Cash and cash equivalents	176
Other non-current provisions	(60)
Employee benefits	(67)
Current borrowings	(292)
Trade payables	(588)
Other liabilities	(296)
Net assets acquired	**1,426**
Consideration paid	(2,800)
Reserve for transactions under common control	**(1,374)**

Moreover, during the year, the Group made several acquisitions, not as significant yet still supporting the business in Vietnam, Italy and Australia, for a total amount of Euro 383 thousand net of cash acquired, which led to the recognition of goodwill of Euro 276 thousand.

2015

During 2015, the Group adjusted the purchase price for the accounting variations for the period between January 1, 2014 and the date of acquisition, for an amount of USD 2,975 thousand.

The purchase price allocation was finalized to determine the fair value of Boncafe's net assets acquired in August 2014 was completed in 2015, with the recognition of *i)* goodwill and ii) the Boncafe family of trademarks amounting to Euro 31,545 thousand and Euro 15,700 thousand, respectively, at the acquisition date.

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 following table sets for a breakdown of investment properties:

(in thousands of Euro)	Goodwill	Trademarks, licenses, and similar	Customer related assets	Software and other immaterial assets	Total
As at December 31, 2014	**71,841**	**35,757**	**1,845**	**3,164**	**112,607**
Of which:					
- historical cost	*71,841*	*37,961*	*2,883*	*17,001*	***129,686***
- accumulated depreciation	-	*(2,204)*	*(1,038)*	*(13,837)*	***(17,079)***
Capital expenditure	-	*3,953*	-	*1,556*	**5,509**
Disposals	-	-	-	*(406)*	**(406)**
Amortization	-	*(1,702)*	*(126)*	*(1,131)*	**(2,959)**
Exchange differences	*1,307*	*1,368*	*210*	*198*	**3,083**
As at December 31, 2015	**73,148**	**39,376**	**1,929**	**3,381**	**117,834**
Of which:					
- historical cost	*73,148*	*43,202*	*3,215*	*17,889*	***137,454***
- accumulated depreciation	-	*(3,826)*	*(1,286)*	*(14,508)*	***(19,620)***
Change in scope of consolidation	*39,921*	*30,000*	*2,123*	*606*	**72,650**
Capital expenditure	-	*123*	-	*1,575*	**1,698**
Disposals	-	-	-	*(55)*	**(55)**
Amortization	-	*(2,407)*	*(361)*	*(1,367)*	**(4,135)**
Exchange differences	*859*	*486*	*59*	*27*	**1,431**
As at December 31, 2016	**113,928**	**67,578**	**3,750**	**4,167**	**189,423**
Of which:					
- historical cost	*113,928*	*73,893*	*5,586*	*20,193*	***213,600***
- accumulated depreciation	-	*(6,315)*	*(1,836)*	*(16,026)*	***(24,177)***

Intangible assets as at December 31, 2016 principally comprise goodwill. Specifically, total goodwill as at December 31, 2016, in addition to the acquisition of Nutricafés referred to in note 5, mainly arose from the following transactions:

- acquisition in 2002 of Meira Oy Ltd. (Finland) for which goodwill amounted to Euro 24,000 thousand (the same amount of goodwill was reported at December 31, 2015);
- acquisition in 2005 of retail activities in the United States from Sara Lee Corporation and in 2011 of Kauai Coffee Company LLC for which goodwill amounted to Euro 3,620 thousand (Euro 3,504 thousand at December 31, 2015); and
- acquisition in 2010 by an Australian subsidiary of Espresso Italia Ltd for which goodwill amounted to Euro 5,194 thousand (Euro 5,069 thousand at December 31, 2015).
- acquisition in 2014 of Boncafe for which goodwill amounted to Euro 35,422 thousand (Euro 34,300 thousand at December 31, 2015); and
- acquisition in 2016 of Nutricafes for which goodwill amounted to Euro 39,671 thousand.

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 7,682 thousand as at December 31, 2016 (Euro 7,439 thousand at December 31, 2015). These trademarks are deemed to have indefinite useful lives and therefore are not amortized but are subject to annual impairment tests, or more frequently when required;

ii) The Puccino’s and Segafredo Zanetti Espresso families of trademarks with definite useful lives, amounting to Euro 2,219 thousand and Euro 8,964 thousand as at December 31, 2016,

respectively (Euro 2,344 thousand and Euro 9,469 thousand as at December 31, 2015). Such trademarks were acquired from MZ Industries on September 25, 2014 by Massimo Zanetti Beverage S.A. and Segafredo Zanetti Espresso Worldwide Ltd respectively, for considerationof Euro 2,500 thousand and Euro 10,100 thousand, based on valuations carried out by Bugnion S.p.A.

iii) The Boncafe family of trademarks recognized as a result of the determination of the fair value of the net assets acquired, as described in note 5, amounting to Euro 15,114 thousand as at December 31, 2016 (Euro 15,785 thousand as at December 31, 2015);

iv) trademarks, brands and commercial information of Ceca S.A. (part of the Neumann Gruppe GmbH in Costa Rica) acquired in April 2015 for a total consideration of USD 3,500 thousand, amounting to Euro 3,303 thousand as at December 31, 2016. The remaining balance of USD 700 thousand relates to coffee roasting machinery and vehicles and is recorded within property, plant and equipment, and

v) the Cafè Nicola and Chave D'Ouro trademarks, with a fixed life, initially entered into the financial statements during the calculation of fair value of Nutricafés' net assets as reported in note 5 in the amount of Euro 30,000 thousand. At December 31, 2016, these trademarks were posted for a value of Euro 29,600 thousand by effect of the amortisation at the time of their acquisition.

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.

Relevant CGUs include Segafredo Zanetti, Boncafe, Nutricafés and assets managed in the USA, Finland and the United Kingdom.

For the purposes of impairment testing, the value in use of the aforementioned 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 24, 2017 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. The projections used reflect a reduction compared to those used in the previous year to reflect a prudent approach to a possible risk associated with the evolution of the parameters explained above, however, further reflected in the determination of the WACC, as explained below.

- 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 (2017-2019) analyzed 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 rates of inflation in the countries in which each CGU operates (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 have been estimated based on both levels required for normal maintenance and levels required to support 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 post-tax weighted average cost of capital ("**WACC**") 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 for each CGU equal to the average return on 10 year government bonds;
  - a beta coefficient in line with a group of comparable listed companies operating in the coffee business;
  - a 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 a group of comparable companies.
  - The tax rate utilized is the applicable tax rate for each CGU ;
  - An additional risk premium has been reflected.
  -

The recoverable value of the individual CGUs at December 31, 2016, calculated on the aforementioned basis, is greater than the related carrying value. The following table shows the WACC, g-rate and result of the impairment test for each of the CGUs at December 31, 2016.

As of December 31, 2016	**CGU Segafredo Zanetti**	**CGU Finland**	**CGU United Kingdom**	**CGU USA**	**Nutricafés**	**Boncafe**
Recoverable amount / carrying value	154%	269%	180%	136%	111%	115%
WACC	6.46%	5.44%	6.28%	6.81%	8.12%	8.15%
g-rate	1.20%	2.00%	2.00%	2.30%	0.70%	2.96%

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. Sensitivity analysis has been carried out for each CGU to consider the effect on 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 of December 31, 2016	**CGU Segafredo Zanetti**	**CGU Finland**	**CGU United Kingdom**	**CGU USA**	**Nutricafes**	**Boncafe**
Recoverable amount / carrying value (WACC +0.5%)	140%	235%	162%	122%	104%	104%
Recoverable amount / carrying value (g-rate -0.75%)	135%	224%	155%	117%	100%	101%
Recoverable amount / carrying value (EBITDA -7.5%)	132%	244%	162%	120%	100%	102%

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

The following table sets for a breakdown of investment properties:

(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, 2014	**82,347**	**58,898**	**20,150**	**39,503**	**2,328**	**203,226**
Of which:						
- historical cost	*112,169*	*122,153*	*63,483*	*138,260*	*2,328*	***438,393***
- accumulated depreciation	*(29,822)*	*(63,255)*	*(43,333)*	*(98,757)*	*-*	***(235,167)***
Additions	969	2,526	3,844	13,978	5,469	**26,786**
Disposals	(24)	(3)	(164)	(423)	-	**(614)**
Depreciation	(3,765)	(5,722)	(5,040)	(13,648)	-	**(28,175)**
Reclassifications	310	3,887	1,036	12	(5,245)	**-**
Exchange differences	1,912	5,049	384	112	191	**7,648**
As at December 31, 2015	**81,749**	**64,635**	**20,210**	**39,534**	**2,743**	**208,871**
Of which:						
- historical cost	*115,397*	*131,908*	*65,445*	*137,020*	*2,743*	***452,513***
- accumulated depreciation	*(33,648)*	*(67,273)*	*(45,235)*	*(97,486)*	*-*	***(243,642)***
Change in scope of consolidation	1,416	1,929	1,834	3,484	272	**8,935**
Additions	2,493	1,914	4,576	15,071	6,064	**30,118**
Disposals	(562)	(22)	(127)	(155)	-	**(866)**
Depreciation	(4,039)	(6,038)	(4,688)	(14,534)	-	**(29,299)**
Reclassifications	267	6,400	24	815	(7,506)	**-**
Exchange differences	604	1,772	16	7	15	**2,414**
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)***

Property, plant and equipment includes assets held under finance leases totalling Euro 3,383 thousand and Euro 669 thousand as at December 31, 2016 and 2015 respectively.

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, Germany and Austria. This equipment is of a commercial nature and is designed to build customer loyalty.

9. Investment Properties

The following table sets for a breakdown of investment properties:

(in thousands of Euro)	Land	Buildings	Total
As at December 31, 2014	**1,019**	**3,506**	**4,525**
Of which:			
- historical cost	*1,019*	*4,123*	*5,142*
- accumulated depreciation	*-*	*(617)*	*(617)*
Amortization	-	(103)	(103)
As at December 31, 2015	**1,019**	**3,403**	**4,422**
Of which:			
- historical cost	*1,019*	*4,123*	*5,142*
- accumulated depreciation	*-*	*(720)*	*(720)*
Amortization	-	(103)	(103)
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)*

Investment properties include properties in Modena (MO) 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 state 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 reports the transactions in the period of the entry in question:

	As at December 31
(in thousands of Euro)	**2016**
Balance at January 1, 2016	**138**
Investments in Club Coffee LP	10,139
Losses of the year	(110)
Exchange differences	776
Balance at December 31, 2016	**10,943**

In April, the Group through its North American subsidiary Massimo Zanetti Beverage USA, acquired a minority shareholding (equal to 15.1% of the share capital) in the company Club Coffee LP with registered office in Toronto upon payment of Euro 10,139 thousand. Please, see the section "Main Events Occurred in the Fiscal Year 2016".

11. Current and Non-Current Advances and Trade Receivables

The following table shows a breakdown of amortization, depreciation and impairment:

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Trade receivables and other receivables	142,376	130,773
Provision for impairment of trade receivables	(16,295)	(14,823)
Total trade receivables	**126,081**	**115,950**
Non-current trade receivables and advances from customers	18,638	18,826
Non-current provision for impairment of trade receivables	(5,336)	(5,043)
Total non-current advances and trade receivables	**13,302**	**13,783**
Total	**139,383**	**129,733**

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

(in thousands of Euro)	**Provision for impairment of trade receivables**	**Non-current provision for impairment of trade receivables**
As at December 31, 2014	**14,309**	**4,946**
Accruals	1,757	2,032
Releases	(63)	-
Utilizations	(1,697)	(1,935)
Exchange differences	517	-
As at December 31, 2015	**14.823**	**5,043**
Change in scope of consolidation	2,194	60
Accruals	1,822	2,343
Releases	(53)	-
Utilizations	(2,637)	(2,016)
Reclassifications	94	(94)
Exchange differences	52	-
As at December 31, 2016	**16,295**	**5,336**

12. Deferred Tax Assets and Liabilities

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

(in thousands of Euro)	As at December 31 2016	2015
Balance as at January 1	**(12,962)**	**(15,917)**
Of which:		
- deferred tax assets	*11,046*	*10,311*
- deferred tax liabilities	*(24,008)*	*(26,228)*
Charged to the income statement	(1,158)	(980)
Credited/(Charged) to the other comprehensive income	(203)	1,732
Change in scope of consolidation	(4,470)	-
Tax impact of transaction costs related to the increase in share capital	-	1,316
Reclassifications	(9)	1,347
Exchange differences	(468)	(460)
Balance as at December 31	**(19,270)**	**(12,962)**
Of which:		
- deferred tax assets	*9,799*	*11,046*
- deferred tax liabilities	*(29,069)*	*(24,008)*

Deferred tax assets relate mainly to tax losses carried forward as well as provisions recorded for obsolescence, doubtful accounts and other charges that will only become deductible for tax purposes when the respective losses become certain. Deferred tax liabilities relate mainly to intangible assets and property, plant and equipment that have lower deductible values for tax purposes than the related carrying amounts.

13. Other Current and Non-Current Assets

The following table shows a breakdown of amortization, depreciation and impairment:

(in thousands of Euro)	As at December 31 2016	2015
Guarantee deposits	2,644	2,544
Other non-current assets	4,219	3,321
Total other non-current assets	**6,863**	**5,865**
Financial receivables	3,495	192
Advances to suppliers and others	9,339	6,815
Other tax credits	2,449	3,607
Derivatives on exchange rates	1,097	431
Other current assets	1,627	1,419
Total other current assets	**18,007**	**12,464**

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

14. Inventories

The following table shows a breakdown of amortization, depreciation and impairment:

(in thousands of Euro)	As at December 31 2016	2015
Raw materials	61,550	65,595
Finished goods	67,645	66,250
Work in progress	3,663	2,962
Total	**132,858**	**134,807**

Inventories are stated net of allowances for obsolescence, amounting to Euro 1,229 thousand and Euro 1,145 thousand as at December 31, 2016 and 2015 respectively. Provisions recorded in the years ended December 31, 2016 and 2015 amounted to Euro 126 thousand and Euro 252 thousand respectively.

15. Cash and cash equivalents

The following table shows a breakdown of amortization, depreciation and impairment:

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Cash at bank	44,236	24,763
Cash and cash equivalents	931	811
Total cash and cash equivalents	**45,167**	**25,574**

The following table sets for a breakdown of cash and cash equivalents by currency at December 31, 2016 and 2015:

	As at December 31	As at December 31
(in thousands of Euro)	**2016**	**2015**
Cash and cash equivalents denominated in Euro	32,242	11,412
Cash and cash equivalents denominated in USD	2,428	5,263
Cash and cash equivalents denominated in Bath	2,347	1,046
Cash and cash equivalents denominated in other currencies	8,150	7,853
Total cash and cash equivalents	**45,167**	**25,574**

16. Equity

Share capital

At December 31, 2016, issued and fully paid share capital of the Company amounted to Euro 34,300 thousand (Euro 34,300 thousand at December 31, 2015) and relates to 34,300,000 ordinary shares without nominal value.

The Company was listed on the STAR segment of the *Mercato Telematico Azionario* - MTA (stock market) managed and organised by Borsa Italiana S.p.A. (Italian Stock Exchange). For the purposes of the listing, 6,300 thousand new ordinary shares were subsequently issued and share capital was increased by Euro 6,300 thousand.

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, 2014	**3,742**	**-**	**49,385**	**536**	**(6,745)**	**4,790**	**51,708**	**126,567**
Remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**55**
Tax on remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**(15)**
Cash flow hedge: fair value losses in the period	-	-	-	*(597)*	-	-	**(597)**	**-**
Tax on fair value losses in the period from cash flow hedges	-	-	-	*347*	-	-	**347**	**-**
Currency translation differences	-	-	-	-	-	*10,595*	**10,595**	**-**
Net investment hedge: losses in the period	-	-	-	-	(5,088)	-	**(5,088)**	**-**
Tax on losses in the period from net investment hedge	-	-	-	-	1,400	-	**1,400**	**-**
Other changes	-	-	-	-	-	-	**-**	**(1,796)**
Increase in share capital, net of transaction costs	-	62,918	-	-	-	-	**62,918**	**-**
Profit for the year	-	-	-	-	-	-	**-**	**11,495**
Reclassifications	*26*	-	494	-	-	-	**520**	**(520)**
As of December 31, 2015	**3,768**	**62,918**	**49,879**	**286**	**(10,433)**	**15,385**	**121,803**	**135,786**
Remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**(77)**
Tax on remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**9**
Cash flow hedge: fair value gains in the period	-	-	-	666	-	-	**666**	**-**
Tax on fair value gains in the period from cash flow hedges	-	-	-	(212)	-	-	**(212)**	**-**
Currency translation differences	-	-	-	-	-	3,695	**3,695**	**-**
Acquisition of Segafredo Zanetti World Wide S.p.A.	-	-	-	-	-	-	**-**	**(1,374)**
Other changes	-	-	-	-	-	-	**-**	**-**
Dividends paid	-	-	(3,087)	-	-	-	**(3,087)**	**-**
Profit for the year	-	-	-	-	-	-	**-**	**16,586**
Reclassifications	18	-	-	-	1,855	-	**1,873**	**(1,873)**
As of December 31, 2016	**3,786**	**62,918**	**46,792**	**740**	**(8,578)**	**19,080**	**124,738**	**149,057**

The share premium reserve, amounting to Euro 62,918 thousand as at December 31, 2016, 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 tables set forth a breakdown of current and non-current borrowings as at December 31, 2016 and 2015:

As of December 31, 2016 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	24,952	140,878	48,515	214,345
Short-term borrowings	41,564	-	-	41,564
Advances from factors and banks	9,306	-	-	9,306
Loans from related parties		-	-	-
Finance lease liabilities	1,608	2,041	683	4,332
Total	**77,430**	**141,291**	**50,826**	**269,547**

As of December 31, 2015 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	25,291	87,513	10,274	123,078
Short-term borrowings	75,394	-	-	75,394
Advances from factors and banks	12,345	-	-	12,345
Loans from related parties	-	-	-	-
Finance lease liabilities	70	344	207	621
Total	**113,100**	**87,857**	**10,481**	**211,438**

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	
			2016	2015
		(in thousands)	*(in thousands of Euro)*	
denominated in Euro				
Euribor 6M + 4.95%	2013	24,000	-	14,871
Euribor 6M + 3.00%	2013	20,000	8,459	11,428
Euribor 3M + 3.50%	2013	12,000	2,518	7,419
Euribor 6M + 2.50%	2011	15,000	2,774	5,362
Euribor 6M + 3.00%	2013	8,000	-	6,073
Euribor 3M + 3.375%	2014	5,000	-	3,175
Euribor 3M + 4.50%	2014	5,000	-	2,083
Euribor 6M + 2.30%	2015	20,000	-	19,826
Euribor 6M + 1.25%	2015	5,000	2,524	4,181
Euribor 3M + 1.25%	2015	12,000	9,667	11,000
Euribor 6M + 1%	2016	5,000	4,437	-
Euribor 3M + 1.10%	2016	15,000	14,969	-
Euribor 6M + 1.35%	2016	50,000	50,000	-
Euribor 6M + 0.90%	2016	9,000	8,987	-
Euribor 6M + 1.05%	2016	50,000	49,787	-
Euribor 6M + 0.9%	2016	10,000	9,995	-
Euribor 3M + 0.75%	2016	10,000	9,995	-
Euribor 6M +1%	2016	5,000	4,962	-
Other loans	-	-	1,068	834
		subtotal	**180,142**	**86,252**
denominated in USD				
Libor 1M + 2.50%	2015	39,620	31,680	34,109
6.5% Libor 3M + 7.5%	2015	3,000	2,523	2,717
		subtotal	**34,203**	**36,826**
Total			**214,345**	**123,078**
of which non-current			*189,393*	*97,691*
of which current			*24,952*	*25,387*

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 favor of third parties or to vary controlling shareholdings without the express consent of the financial institution;
- cross-defaults: such clauses foresee that in the case in which 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 covenants and financial covenants, which had been complied with at December 31, 2016 and 2015. Consequently, there are no events of default to be reported.

In the second half of 2016, also in order to raise the resources to finance the acquisition of Nutricafés , the Group launched a process for the restructuring of its non-current financial indebtedness, in order to extend repayment plans and optimise their cost, by concluding new long-term financing agreements at better conditions than some previous agreements, for which gradual early repayment has been started.

In detail, to finance the acquisition of the Portuguese company Nutricafés S.A., the Group has taken out the following loans: i) from Banca Intesa San Paolo dated August 11, 2016 for a nominal amount of Euro 50,000 thousand, with maturity on September 30, 2022 and ii) from Rabobank, dated September 6, 2016 for a nominal amount of Euro 50,000 thousand and maturity on September 6, 2022.

Furthermore, during the year, the Group entered into medium/long-term bank loans totalling Euro 69,000 thousand (of which Euro 54,000 thousand disbursed on December 31,2016), with maturity dates between 2019 and 2021, as described below:

- Banca Popolare dell'Emilia Romagna on February 15, 2016 for a principal amount of Euro 5,000 thousand, with maturity date on July 15, 2019; and
- UBI Banca – entered into on March 21, 2016 for a principal amount of Euro 15,000 thousand and with a maturity date of March 21, 2021;
- FriulAdria – entered into on May 15, 2016 for a principal amount of Euro 9,000 thousand and with maturity date on June 30, 2020;
- Banca Sella – entered into on October 4, 2016 for a principal amount of Euro 10,000 thousand and with a maturity date of October 31, 2021;
- Banca Popolare dell'Emilia Romagna on October 25, 2016 for a principal amount of Euro 10,000 thousand, with maturity date on October 25, 2020; and
- Banca Nazionale del Lavoro – entered into on October 12, 2016 for a principal amount of Euro 20,000 thousand, comprised of two lines of Euro 10,000 thousand each, with maturity dates on April 12, 2020 and October 12, 2021, respectively. At December 31, 2016, this amount was disbursed by Euro 5,000 thousand.

As part of the above-mentioned restructuring process, in the second half of the year, the loans granted by Abanca Corporaciòn Bancaria S.A. to Nutricafés prior to acquisition, amounting to Euro 29,620 thousand, were repaid earlier, in addition to some loans granted to the Group for a total of Euro 40,501 thousand.

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)	**2016**	**2015**
Principal amount of long-term borrowings		
- at variable rate	214,995	121,173
- at fixed rate	-	2,717
Notional value of derivatives on interest rates	23,476	48,166
Long-term borrowings converted at fixed rate	11%	41%
Remaining portion of long-term borrowings at variable rate	89%	59%
Long-term borrowings denominated in Euro	84%	70%
Long-term borrowings denominated in USD	16%	30%

Furthermore, the Group 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". See Note 3 – Management of Financial Risks for further details.

Advances from factors and banks

Advances from factors and banks relate to advances received from factors or other banks in relation to trade receivables assigned during the year that do not meet the criteria established for the de-recognition 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, 2016 and 2015, 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)		**2016**	**2015**
A	Cash and cash equivalents	(931)	(811)
B	Cash at bank	(44,236)	(24,763)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(45,167)**	**(25,574)**
E	**Current financial receivables**	**(3,495)**	**(192)**
F	Current loans	50,870	87,739
G	Current portion of non-current loans	24,952	25,291
H	Other current financial payables	1,608	70
I	**Current indebtedness (F+G+H)**	**77,430**	**113,100**
J	**Net current indebtedness (I+E+D)**	**28,768**	**87,334**
K	Non-current loans	189,393	97,787
L	Issued bonds	-	-
M	Other non-current financial payables	2,724	551
N	**Non-current indebtedness (K+L+M)**	**192,117**	**98,338**
O	**Net financial indebtedness (J+N)**	**220,885**	**185,672**

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)	**2016**	**2015**
Balance as at January 1	**9,624**	**9,743**
Service costs	420	371
Interest expenses	85	97
Benefits paid	(1,032)	(566)
Change in scope of consolidation	67	-
Remeasurements of employee benefits	80	(58)
Exchange differences	24	37
Balance as at December 31	**9,268**	**9,624**

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)	**2016**	**2015**
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	2.68%	3.02%
Demographic assumptions		
Probability of resignation	6.62%	5.22%
Probability of advance payments to employees	0.92%	0.78%

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, 2016*		*as at December 31, 2015*	
Inflation rate	0.50%	74	(71)	81	(86)
Discount rate	0.50%	(123)	131	(143)	144
Demographic assumptions					
Probability of resignation	0.50%	6	(6)	8	(17)
Probability of advance payments to employees	0.50%	6	(6)	8	(16)

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 retirement, 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 five 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 as at December 31, 2016	1,082	631	2,574	6,321	**10,608**
Expected benefits paid to employees as at December 31, 2015	1,192	561	2,194	6,347	**10,294**

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 9,962 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**
At December 31, 2014	**1,681**	**610**	**2,291**
Accruals	114	152	**266**
Utilizations	-	(43)	**(43)**
Releases	(96)	(152)	**(248)**
Exchange differences	(35)	27	**(8)**
As of December 31, 2015	**1,664**	**594**	**2,258**
Change in scope of consolidation	**-**	1,345	**1,345**
Accruals	236	514	**750**
Utilizations	(313)	-	**(313)**
Releases	-	(120)	**(120)**
Exchange differences	26	3	**29**
As of December 31, 2016	**1,613**	**2,336**	**3,949**

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, 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. Pending the opening of subsequent stages in the proceedings, Massimo Zanetti Beverage U.S.A. Inc. and the defendants in the court case, though not considering a successful outcome to the dispute very likely, do not exclude a possible extra-judicial resolution of the dispute.

20. Other Current and Non-Current Liabilities

The following table shows a breakdown of amortization, depreciation and impairment:

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Derivatives on interest rates	1,142	2,367
Non-current financial guarantee contracts	1,568	1,568
Other non-current liabilities	635	1,946
Other non-current liabilities	**3,345**	**5,881**
Payables to personnel	10,440	7,515
Payables to social security institutions	4,311	4,412
Other tax payables	5,309	3,983
Current financial guarantee contracts	1,111	1,729
Advances from customers	1,011	532
Payables to agents	1,397	1,474
Derivatives on interest rates	664	703
Other current liabilities	6,328	5,388
Total other current liabilities	**30,571**	**25,736**

See comments in Note 3 on fair value estimate for further details regarding liabilities related to derivative instruments.

Financial guarantee contracts, the current portion of which is included among other current liabilities, relate to financial guarantees (in the form of discounted bills of exchange) issued in favor of Claris Factor S.p.A. in relation to loans provided by the latter to Group customers. Such guarantees are part of a broader business arrangement with customers, and in particular with bars in Italy. As at December 31, 2016, total loans made

to customers by Claris Factor S.p.A. which are covered by Group guarantees amounted to Euro 14,795 thousand (Euro 16,911 thousand as at December 31, 2015). The Group monitors repayment of loans covered by such guarantees to evaluate and manage its exposure.

"Other current liabilities" include Euro 1,300 thousand that relates to the last instalment of the fine from the German Antitrust Authority that is expected to be settled in 2017.

21. Revenue

The following table sets forth a breakdown of revenue for the years ended December 31, 2016 and 2015, the trends of which are illustrated in the Management Report:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Sales of roasted coffee	812,178	831,223
Sale of regional products and other food related products	48,263	47,973
Sales of coffee machines	32,873	34,852
Revenue from café network	11,394	12,070
Other revenue	**12,767**	15,562
Total	**917,475**	**941,680**

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

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Mass Market	343,857	339,056
Foodservice	196,023	186,690
Private Label	320,562	353,450
Other	57,033	62,484
Total	**917,475**	**941,680**

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

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Americas	450,920	487,203
Northern Europe	171,724	166,919
Southern Europe	224,668	214,783
Asia-Pacific and Cafés(*)	70,163	72,774
Total	**917,475**	**941,680**

(*) this geographic area includes revenues from café network

22. Other Income

Other income relates mainly to rental contracts.

23. Purchases of Goods

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Purchases of raw materials	395,531	435,695
Purchases of finished goods	74,610	76,543
Purchases of packaging and other	61,824	64,285
Total	**531,965**	**576,523**

24. Purchases of Services, Leases and Rentals

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Advertising and promotions	42,830	38,369
Transportation costs	24,394	26,456
Agent commissions and other	18,848	18,755
Maintenance, repair and support	15,790	15,462
Leases and rentals	14,968	15,055
Utilities	13,557	14,718
Travel expenses and fuel	9,330	9,263
Consultancy and collaborations	10,135	8,740
Temporary workers	4,193	4,614
Insurance	2,807	3,083
Outsourced processing	3,494	3,363
Other services	14,708	12,089
Total	**175,054**	**169,967**

25. Personnel Costs

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Wages and salaries	113,120	103,938
Social security contributions	18,562	16,887
Directors' fees	3,386	3,461
Contributions to pension funds	1,054	1,325
Other personnel-related costs	2,627	2,166
Total	**138,749**	**127,777**

The following table shows the average number of employees for the years ended December 31, 2015 and the number of employees as at December 31, 2016 and 2015:

(no.)	Average number of employees during the year		Number of employees as at December 31	
	2016	**2015**	**2016**	**2015**
Executives	120	117	118	121
Managers and white collar staff	1,759	1,677	1,825	1,693
Blue-collar workers	1,290	1,220	1,323	1,257
Total	**3,169**	**3,014**	**3,266**	**3,071**

26. Other Operating Costs

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Indirect taxes and levies	3,941	3,494
Other costs	1,987	1,270
Accruals of provisions	630	12
German Antitrust fine	-	3,700
Costs associated with IPO	-	3,053
Total	**6,558**	**11,529**

Other operating costs for the year ended December 31, 2015 include the following non-recurring items:

- Euro 3,700 thousand related to the fine imposed by the Court of Appeal in Düsseldorf;
- Expenses incurred in relation to the IPO of Euro 3,053 thousand not attributable to the share capital increase.

27. Amortization, Depreciation and Impairment

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Depreciation of property, plant and equipment	29,299	28,175
Amortization of intangible assets	4,135	2,959
Depreciation of investment property	103	103
Allowances for doubtful accounts	4,112	3,726
Total	**37,649**	**34,963**

28. Finance Income and Costs

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Interest expense	6,378	8,741
Interest expense to related parties	1,111	-
Net foreign exchange gains	(237)	(1,286)
Net fair value gains on derivative financial instruments	(771)	(962)
Other finance costs	1,360	1,764
Total finance costs	**7,841**	**8,257**
Finance income	(267)	(179)
Total net finance expense	**7,574**	**8,078**

29. Income Tax Expense

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Current income tax	9,164	6,337
Deferred tax	1,158	980
Total	**10,322**	**7,317**

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

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Profit before tax	*27,086*	*18,950*
Theoretical taxes	**7,449**	**5,211**
Domestic tax rate impact	915	349
IRAP	426	578
ACE	(133)	(642)
Non-deductible German Antitrust fine	-	1,018
Permanent differences and minor items	1,665	803
Income tax expense	**10,322**	**7,317**

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)	**2016**	**2015**
Average number of ordinary shares	34,300,000	31,641,918
Profit attributable to owners of the parent	16,586	11,495
Basic and diluted earnings per share (in Euro)	**0.48**	**0.36**

Basic earnings per share and diluted earnings per share were the same for the years ended December 31, 2016 and 2015 as there were no dilutive options and other dilutive potential ordinary shares.

31. Commitments

Contractual commitments to third parties and related parties as at December 31 2016, not yet reflected in the financial statements, include contracts for the purchase of green coffee totaling Euro 219,495 thousand (Euro 196,622 thousand at December 31, 2015).

The following table provides details of commitments arising in relation to non-cancellable operating leases outstanding as at December 31, 2016:

	As at December 31	As at December 31
(in thousands of Euro)	**2016**	**2015**
Less than 12 months	8,618	6,138
Between 1 and 5 years	23,358	18,492
Over 5 years	11,632	16,907
Total	**43,608**	**41,537**

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, during the years ended December 31, 2016 and 2015, 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 for the years ended December 31, 2016 and 2015, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as at December 31, 2016 and 2015:

(in thousands of Euro)	**Entities under Common Control**	**JV and Associates**	**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, 2016	1,361	903	-	**2,264**	917,475	**0.2%**
For the year ended December 31, 2015	185	-	-	**185**	941,680	**0.0%**
Purchases of goods						
For the year ended December 31, 2016	178,773	5,750	-	**184,523**	531,965	**34.7%**
For the year ended December 31, 2015	205,214	-	-	**205,214**	576,523	**35.6%**
Purchases of services, leases and rentals						
For the year ended December 31, 2016	508	388	-	**896**	175,054	**0.5%**
For the year ended December 31, 2015	543	-	-	**543**	169,967	**0.3%**
Personnel costs						
For the year ended December 31, 2016	-	-	6,364	**6,364**	138,749	**4.6%**
For the year ended December 31, 2015	-	-	3,550	**3,550**	127,777	**2.8%**
Finance income						
For the year ended December 31, 2016	-	3	-	**3**	267	**1.1%**
For the year ended December 31, 2015	-		-	**-**	179	**0.0%**
Finance costs						
For the year ended December 31, 2016	1,111		-	**1,111**	7,841	**14.2%**
For the year ended December 31, 2015	347		-	**347**	8,257	**4.2%**
Impact of transactions on statement of financial position						
Trade receivables						
As of December 31, 2016	336	23	-	**359**	126,081	**0.3%**
As of December 31, 2015	533	-	-	**533**	115,950	**0.5%**
Other non-current assets						
As of December 31, 2016	-	120	-	**120**	6,863	**1.7%**
As of December 31, 2015	-	-	-	**-**	5,865	**0.0%**
Other current assets						
As of December 31, 2016	-	-	-	**-**	18,007	**0.0%**
As of December 31, 2015	40	-	-	**40**	12,464	**0.3%**
Non-current borrowings						
As of December 31, 2016	-	-	-	**-**	192,117	**0.0%**
As of December 31, 2015	-	-	-	**-**	98,338	**0.0%**
Current borrowings						
As of December 31, 2016	-	-	-	**-**	77,430	**0.0%**
As of December 31, 2015	-	-	-	**-**	113,100	**0.0%**
Trade payables						
As of December 31, 2016	46,641	6	-	**46,647**	122,209	**38.2%**
As of December 31, 2015	13,507	-	-	**13,507**	80,745	**16.7%**

The following table shows details of other balances resulting from related party transactions at December 31, 2016 and 2015:

(in thousands of Euro)		**Entities under Common Control**	**JV and Associates**	**Key Management**	**Total related parties**	**Total**	**Percentage of Total**
Other information							
Guarantees							
As of December 31, 2016	-	44,633	-	-	**44,633**	59,428	**75.1%**
As of December 31, 2015	-	49,000	-	-	**49,000**	65,911	**74.3%**
Commitments							
As of December 31, 2016	-	66,458	-	-	**66,458**	219,495	**30.3%**
As of December 31, 2015	-	85,510	-	-	**85,510**	196,622	**43.5%**

Entities under Common Control

The following table shows the income statement effects of transactions with Entities under Common Control for the years ended December 31, 2016 and 2015, as well as the statement of financial position balances resulting from transactions with Entities under Common Control by financial statement line item for the years ended December 31, 2016 and 2015:

(in thousands of Euro)	Cofiroasters SA	Other entities *Green Coffee*	Doge SpA	Hotel Cipriani	Other	Total Entities under Common Control	Financial statements line item	Percentage of financial statements line item
Impact of transactions on income statement								
Revenue								
For the year ended December 31, 2016	1,283	15	18	9	36	**1,361**	917,475	**0.1%**
For the year ended December 31, 2015	2	9	18	7	149	**185**	941,680	**0.0%**
Purchases of goods								
For the year ended December 31, 2016	168,359	10,414	-	-	-	**178,773**	531,965	**33.6%**
For the year ended December 31, 2015	196,244	8,970	-	-	-	**205,214**	576,523	**35.6%**
Purchases of services, leases and rentals								
For the year ended December 31, 2016	-	1	77	120	310	**508**	175,054	**0.3%**
For the year ended December 31, 2015			68	139	336	**543**	169,967	**0.3%**
Finance costs								
For the year ended December 31, 2016	1,111	-	-	-	-	**1,111**	7,841	**14.2%**
For the year ended December 31, 2015	13	-	334	-	-	**347**	8,257	**4.2%**
Impact of transactions on statement of financial position								
Trade receivables								
As of December 31, 2016	217	2	22	95	-	**336**	126,081	**0.3%**
As of December 31, 2015	-	-	-	98	435	**533**	115,950	**0.5%**
Other current assets								
As of December 31, 2016	-	-	-	-	-	**-**	18,007	**0.0%**
As of December 31, 2015	-	-	-	17	23	**40**	12,464	**0.3%**
Trade payables								
As of December 31, 2016	45,069	1,572	-	-	-	**46,641**	122,209	**38.2%**
As of December 31, 2015	11,321	2,167	-	-	19	**13,507**	80,745	**16.7%**

The following table shows details of other balances resulting from transactions with Entities under Common Control at December 31, 2016 and 2015, as well as the statement of financial position balances resulting from transactions with Entities under Common Control by financial statement line item for the years ended December 31, 2016 and 2015:

(in thousands of Euro)	Cofiroasters SA	Company	Subsidiaries	Total Entities under Common Control	Total	Percentage of total
Other information						
Guarantees						
As of December 31, 2016	-	39,000	5,633	**44,633**	59,428	**75.1%**
As of December 31, 2015	-	24,000	25,000	**49,000**	65,911	**74.3%**
Commitments				**-**		
As of December 31, 2016	66,458	-	-	**66,458**	219,495	**30.3%**
As of December 31, 2015	85,510	-	-	**85,510**	196,622	**43.5%**

Cofiroasters SA and other green coffee companies

(a) Purchase of green coffee from Cofiroasters

Cofiroasters S.A. 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 organizes the transport of green coffee from production locations to destination ports or directly to roasting plants.

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

In the first half of 2016, in order to harmonize 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 accounts for raw material costs included in "Purchases of goods" totaling Euro 168,359 thousand for the year ended December 31, 2016 (Euro 196,244 thousand for the year ended December 31, 2015).

(b) Commitments to purchase green coffee from Cofiroasters S.A.
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 S.A. not reflected in the financial statements as at December 31, 2016 totaled Euro 66,458 thousand (Euro 85,510 thousand as at December 31, 2015).

Subsidiaries

The Group has provided guarantees in favor of banking institutes on behalf of Group companies. The main guarantees are those in favor 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 3,413 thousand) at December 31, 2016.

Company

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., on January 22, 2009, Doge Finland Oy (merged in Meira OY Ltd) created a mortgage over land and buildings situated in Vallila Paahtimo - Aleksis Kiven Katu 15, Helsinki, Finland, as guarantee up to a maximum of Euro 24,000 thousand against the 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 favor of UBI Banca S.p.A. in relation to the credit line granted by the latter to the Company totalling Euro 15,000 thousand.

JV and Associates

In 2016, the Group through its subsidiary Massimo Zanetti Beverage USA Inc. performed the following transactions with the associate Club Coffee:

- sale of finished products for USD 963 thousand (Euro 903 thousand)
- purchases classified under the entry "subsidiary consumables and raw materials" worth USD 6,357 thousand (Euro 5,750 thousand)
- paid licencing fees of USD 430 thousand (Euro 388 thousand) for the use of proprietary production processes related to the single serve as well as intellectual property related to the products .

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 6,364 thousand and Euro 3,550 thousand for the year ended December 31, 2016 and 2015, respectively.

33. Subsequent events

No significant subsequent events were identified.

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)	December 31, 2016	December 31, 2015
Massimo Zanetti Beverage S.A.	Geneva	31 December	CHF	149,900	100%	100%
Segafredo Zanetti S.p.A.	Bologna	31 December	EUR	38,800	100%	100%
La San Marco S.p.A.	Gorizia	31 December	EUR	7,000	90%	90%
Segafredo Zanetti Sarl	Geneva	31 December	CHF	20	100%	100%
Segafredo Zanetti Argentina S.A.	Buenos Aires	31 December	ARS	4,913	100%	100%
Segafredo Zanetti Australia Pty Ltd.	Sydney	31 December	AUD	4,400	100%	100%
Segafredo Zanetti Austria GmbH	Salzburg	31 December	EUR	727	100%	100%
Segafredo Zanetti Belgium S.A.	Brussels	31 December	EUR	3,892	100%	100%
Segafredo Zanetti (Brasil) Com. Distr. de Cafè SA	Belo Horizonte	31 December	BRL	16,479	100%	100%
Segafredo Zanetti Chile S.A.	Santiago	31 December	CLP	25,000	100%	100%
Segafredo Zanetti Coffee System S.p.A.	Treviso	31 December	EUR	6,000	100%	100%
Segafredo Zanetti CR spol.sro	Prague	31 December	CSK	9,300	100%	100%
Segafredo Zanetti Danmark Aps	Copenhagen	31 December	DKK	141	100%	100%
Segafredo Zanetti Deutschland GmbH	Munich	31 December	EUR	1,534	100%	100%
Segafredo Zanetti Espresso Texas Inc.	Houston	31 December	USD	-	100%	100%
Segafredo Zanetti Espresso Worldwide Ltd.	Geneva	31 December	CHF	38,000	98%	98%
Segafredo Zanetti Espresso Worldwide Japan Inc.	Tokyo	31 December	YEN	100,000	98%	98%
Segafredo Zanetti France S.A.S.	Rouen	31 December	EUR	8,500	100%	100%
Segafredo Zanetti Hellas S.A.	Athens	31 December	EUR	950	100%	100%
Segafredo Zanetti Hungaria KFT	Budapest	31 December	HUF	46,630	100%	100%
Tiktak/Segafredo Zanetti Nederland BV	Groningen	31 December	EUR	18	100%	100%
Segafredo Zanetti Poland Sp.z.o.o.	Bochnia	31 December	PLN	47,615	100%	100%
Segafredo Zanetti Portugal S.A.	Porto	31 December	EUR	40,300	100%	100%
Segafredo Zanetti SR Spol S.r.o.	Bratislava	31 December	EUR	200	100%	100%
Segafredo Zanetti Trgovanje s kavo. d.o.o.	Ljubljana	31 December	EUR	651	100%	100%
Brodie Merlose Drysdale & CO Ltd.	Edinburgh	31 December	GBP	11	100%	100%
Brulerie des Cafés Corsica SAS	Ajaccio	31 December	EUR	152	100%	100%
Distribuidora Cafè Montaña S.A.	San Jose	31 December	CRC	304,000	100%	100%
El Barco Herrumdrado S.A.	San Jose	31 December	CRC	10	100%	100%
Massimo Zanetti Beverage U.S.A. Inc.	Suffolk	31 December	USD	73.641	100%	100%
Meira Eesti Oü	Tallin	31 December	EUR	15	100%	100%
Meira Oy Ltd.	Helsinki	31 December	EUR	1,000	100%	100%
Puccinos Worldwide Ltd	Edinburgh	31 December	GBP	-	100%	100%
Massimo Zanetti Beverage Mexico SA de CV	Mazatlán	31 December	MXN	1,806	50%	50%
MZB Cafes USA Inc	Suffolk	31 December	USD	-	100%	100%
Kauai Coffee Company LLC	Hawaii	31 December	USD	-	100%	100%
Massimo Zanetti Beverage Food Services LLC	Wilmington	31 December	USD	-	100%	100%
Coffee Care (South West) Ltd	Weddmore	31 December	GBP	-	50%	50%
Segafredo Zanetti New Zealand Ltd	Auckland	31 December	NZD	-	100%	100%
Segafredo Zanetti Croatia d.o.o.	Zagreb	31 December	HRK	1,850	100%	100%
Doge Finland Oy (merged in MEIRA Oy Ltd)	Helsinki	31 December	EUR	3	0	100%
Massimo Zanetti Beverage Vietnam Company Ltd	Ben Cat district - Binh Duong	31 December	VND	21,000,000	100%	100%
Segafredo Zanetti (Thailand) Ltd	Bangkok	31 December	THB	15,300	100%	100%
Boncafe International Pte Ltd	Singapore	31 December	SGD	3,200	100%	100%
Boncafe (Cambodia) Ltd	Phnom Penh	31 December	KHR	108,000	100%	100%
Boncafe (M) Sendirian Berhad	Kuala Lumpur	31 December	MYR	200	100%	100%
Boncafe (East Malaysia) Sdn Bhd	Kota Kinabalu	31 December	MYR	-	100%	100%
Six Degrees Cafè Pte Ltd	Singapore	31 December	SGD	-	100%	100%
BeanToCup (Thailand) Ltd	Bangkok	31 December	THB	4,000	100%	100%
Boncafe Middle East Co LLC	Dubai	31 December	AED	300	100%	100%
Boncafe (Thailand) Ltd	Bangkok	31 December	THB	150,000	100%	100%
Massimo Zanetti Beverage (Thailand) Ltd	Bangkok	31 December	THB	30,000	100%	100%
Boncafe (Hong Kong) Ltd	Hong Kong	31 December	USD	500	100%	100%
Segafredo Zanetti Grandi Eventi Srl	Bologna	31 December	EUR	20	100%	100%

Company	Registered office	Reporting date	Share capital		Percentage held as at	
			Currency	Amount (000)	December 31, 2016	December 31, 2015
SZE Service SRL	Municipiul Brasov	31 December	RON	1	51%	51%
Boncafe Vietnam Company Ltd	Thuan An	31 December	VND	10,000,000	100%	-
Massimo Zanetti Beverage USA (Canada), Inc.	Suffolk	31 December	USD	0	100%	-
Massimo Zanetti Beverage Canada Investment ULC	Vancouver	31 December	CAD	0	100%	-
Club Coffee LP	Toronto	25 April,	CAD	4,000	15%	-
Nutricafés S.A.	Lisbon	31 December	EUR	23,900	100%	-

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

	For the year ended December 31			
(in thousands of Euro)	**2016**	***of which related parties***	**2015**	***of which related parties***
Revenue	917,475	2,264	941,680	185
Other income	7,270		6,109	
Purchases of goods	(531,965)	(184,523)	(576,523)	(205,214)
Purchases of services, leases and rentals	(175,054)	(896)	(169,967)	(543)
Personnel costs	(138,749)	(6,364)	(127,777)	(3,550)
Other operating costs	(6,558)		(11,529)	
Amortization, depreciation and impairment	(37,649)		(34,963)	
Operating profit	**34,770**		**27,030**	
Finance income	267	3	179	-
Finance costs	(7,841)	(1,111)	(8,257)	(347)
Share of losses of companies accounted for using the equity method	(110)		(2)	
Profit before tax	**27,086**		**18,950**	
Income tax expense	(10,322)		(7,317)	
Profit for the year	**16,764**		**11,633**	
Profit attributable to:				
Non-controlling interests	*178*		*138*	
Owners of the parent	*16,586*		*11,495*	
Basic and diluted earnings per share (in Euro)	**0.48**		**0.36**	

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

	As at December 31			
(in thousands of Euro)	**2016**	***of which related parties***	**2015**	***of which related parties***
Intangible assets	189,423		117,834	
Property, plant and equipment	220,173		208,871	
Investment properties	4,319		4,422	
Investments in joint venture	10,943		138	
Non-current trade receivables	13,302		13,783	
Deferred tax assets	9,799		11,046	
Other non-current assets	6,863	120	5,865	
Total non-current assets	**454,822**		**361,959**	
Inventories	132,858		134,807	
Trade receivables	126,081	359	115,950	533
Income tax assets	1,611		3,242	
Other current assets	18,007	-	12,464	40
Cash and cash equivalents	45,167		25,574	
Total current assets	**323,724**		**292,037**	
Total assets	**778,546**		**653,996**	
Share capital	34,300		34,300	
Other reserves	124,738		121,803	
Retained earnings	149,057		135,786	
Equity attributable to owners of the parent	**308,095**		**291,889**	
Non-controlling interests	1,849		1,797	
Total equity	**309,944**		**293,686**	
Non-current borrowings	192,117	-	98,338	
Employee benefits	9,268		9,624	
Other non-current provisions	3,949		2,258	
Deferred tax liabilities	29,069		24,008	
Other non-current liabilities	3,345		5,881	
Total non-current liabilities	**237,748**		**140,109**	
Current borrowings	77,430	-	113,100	
Trade payables	122,209	46,647	80,745	13,507
Income tax liabilities	644		620	
Other current liabilities	30,571		25,736	
Total current liabilities	**230,854**		**220,201**	
Total liabilities	**468,602**		**360,310**	
Total equity and liabilities	**778,546**		**653,996**	

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)	**2016**	***of which related parties***	**2015**	***of which related parties***
Profit before tax	**27,086**		**18,950**	
Adjustments for:	-		-	
Amortization, depreciation and impairment	37,649		34,963	
Provisions for employee benefits and other charges	1,050		383	
Finance costs	7,574	1,111	8,080	347
Other non-monetary items	(782)		(2,413)	
Net cash generated from operating activities before changes in net working capital	**72,577**		**59,963**	
Decrease/(Increase) in inventories	6,913		(1,222)	
Decrease/(Increase) in trade receivables	(8,560)	(241)	4,776	28
Increase/(Decrease) in trade payables	33,640	32,825	(2,750)	2,168
Changes in other assets/liabilities	(2,547)	(80)	(12,808)	3,235
Payments of employee benefits	(1,032)		(566)	
Interest paid	(6,736)	(370)	(8,696)	(347)
Income tax paid	(7,753)		(7,566)	
Net cash generated from operating activities	**86,502**		**31,131**	
Acquisition of subsidiary, net of cash acquired	(39,292)		(2,640)	
Acquisition under common control, net of cash acquired	(2,624)	(2,624)	-	
Purchase of property, plant and equipment	(29,106)		(26,786)	(530)
Purchase of intangible assets	(1,698)		(5,059)	
Proceeds from sale of property, plant and equipment	1,266		722	
Proceeds from sale of intangible assets	55		894	
Investments in joint ventures and associates	(10,139)		-	
Changes in financial receivables	(3,403)		(24)	
Interest received	32		249	
Net cash used in investing activities	**(84,909)**		**(32,644)**	
Proceeds from long-term borrowings	154,233		43,448	
Repayment of long-term borrowings	(94,227)		(94,930)	
Decrease in short-term borrowings	(38,929)		(7,621)	(4,194)
Share capital increase	-		67,903	
Dividends paid	(3,211)		(102)	
Net cash generated from financing activities	**17,866**		**8,698**	
Exchange gains/(losses) on cash and cash equivalents	134		87	
Net increase (decrease) in cash and cash equivalents	**19,593**		**7,272**	
Cash and cash equivalents at the beginning of the year	25,574		18,302	
Cash and cash equivalents at the end of the year	**45,167**		**25,574**	

Attestation of the consolidated financial statements pursuant to Article 81-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended and extended

1. We, the undersigned, Massimo Zanetti, in his capacity as Chairman and Chief Executive Officer, and Massimo Zuffi, in his capacity as Manager in Charge of the Financial Reports of Massimo Zanetti Beverage Group S.p.A., hereby declare, 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, 2016.

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, 2016 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 declare 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

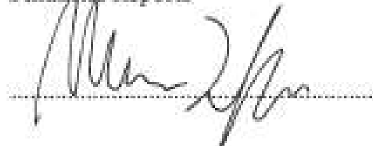
   c) provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and the companies included in the consolidation area.

   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 Company's consolidated financial statements.

Villorba (TV), March 1, 2017

Massimo Zanetti
Chairman and Chief Executive Officer

Massimo Zuffi
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 AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Massimo Zanetti Beverage Group SpA and its subsidiaries (hereinafter also the "MZBG Group"), which comprise the statement of financial position as of 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of Massimo Zanetti Beverage Group SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance 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. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the MZBG Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance 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. 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the management report and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the management report and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Massimo Zanetti Beverage Group SpA, with the consolidated financial statements of the MZBG Group as of 31 December 2016. In our opinion, the management report and the information 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 2016.

Treviso, 20 March 2017

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, 2016

Income Statement

(in Euro)	Note	For the year ended December 31 2016	2015
Revenue	**16**	6,607,237	9,273,259
Other income		187,571	50,551
Purchases of goods		(48,759)	(46,068)
Purchases of services, leases and rentals	**17**	(4,503,028)	(3,432,113)
Personnel costs	**18**	(5,368,432)	(2,354,323)
Other operating costs	**19**	(167,442)	(3,210,769)
Amortization, depreciation and impairment	**20**	(636,793)	(522,408)
Operating result		**(3,929,646)**	**(241,871)**
Finance income	**21**	13,077,269	5,066,978
Finance costs	**21**	(1,860,850)	(7,147,690)
Profit / (loss) before tax		**7,286,773**	**(2,322,583)**
Income tax benefits	**22**	922,059	2,664,706
Profit for the year		**8,208,832**	**342,123**

The accompanying notes are an integral part of the Consolidated Financial Statements

Statement of Comprehensive Income

(in Euro)	**Note**	**For the year ended December 31**	
		2016	**2015**
Profit for the year		**8,208,832**	**342,123**
Remeasurements of employee benefit obligations	**14**	**(10,606)**	1,325
Items that will not be reclassified to profit or loss		**(10,606)**	**1,325**
Total comprehensive income for the year		**8,198,226**	**343,448**

The accompanying notes are an integral part of the Consolidated Financial Statements

Statement of Financial Position

(in Euro)	Note	As at December 31 2016	2015
Intangible assets	**5**	478,381	380,817
Property, plant and equipment	**6**	13,853,078	12,016,086
Investments in subsidiaries	**8**	248,175,077	180,066,854
Deferred tax assets	**9**	3,356,506	3,639,078
Non-current financial receivables	**7**	56,448,355	33,696,437
Total non-current assets		**322,310,397**	**229,799,272**
Income tax assets		1,224,409	2,118,414
Current financial receivables	**7**	6,023,255	1,969,252
Other current assets	**10**	1,776,711	4,393,351
Cash and cash equivalents	**11**	18,695,772	1,038,673
Total current assets		**27,720,147**	**9,519,690**
Total assets		**350,031,042**	**239,318,962**
Share capital		34,300,000	34,300,000
Other reserves		113,496,408	116,566,301
Retained earnings		8,769,564	588,445
Total equity	**12**	**156,565,972**	**151,454,746**
Non-current borrowings	**13**	155,843,607	42,976,054
Employee benefits	**14**	260,755	241,921
Deferred tax liabilities	**9**	31,941	32,931
Other non-current liabilities	**15**	1,142,004	1,921,196
Total non-current liabilities		**157,278,307**	**45,172,102**
Current borrowings	**13**	29,942,529	36,596,478
Trade payables		874,043	1,927,973
Other current liabilities	**15**	5,370,693	4,167,663
Total current liabilities		**36,187,265**	**42,692,114**
Total liabilities		**193,465,573**	**87,864,216**
Total equity and liabilities		**350,031,042**	**239,318,962**

The accompanying notes are an integral part of the Consolidated Financial Statements

Statement of Cash Flows

(in Euro)	Note	For the year ended December 31 2016	2015
Profit (loss) before tax		7,286,773	(2,322,583)
Adjustments for:			
Amortization, depreciation and impairment	**20**	636,793	522,408
Finance costs	**21**	(11,216,419)	2,080,712
Other non-monetary items		52,000	33,513
Net cash flow generated from/(used in) operating activities before changes in working capital		**(3,240,853)**	**314,050**
Decrease in trade payables		(1,053,930)	(1,142,475)
Changes in other assets/liabilities	**10-15**	5,071,356	(1,852,263)
Payments of employee benefits	**14**	(52,935)	(4,330)
Interest paid		(1,648,657)	(2,855,989)
Income tax paid		-	(2,522,000)
Net cash used in operating activities		**(924,019)**	**(8,063,007)**
Investments in subsidiaries	**8**	(68,108,223)	(22,135)
Dividends received	**21**	8,784,742	1,181,828
Purchase of intangible assets	**5**	(228,567)	(323,091)
Purchase of property, plant and equipment	**6**	(1,330,782)	(37,404)
Interest received		1,376,490	1,190,462
Increase/(decrease) in financial receivables	**7**	(26,130,106)	2,457,745
Net cash generated from/ (used in) investing activities		**(85,636,446)**	**4,447,405**
Proceeds from long-term borrowings	**13**	149,000,000	20,000,000
Repayment of long-term borrowings	**13**	(35,030,530)	(78,684,000)
Decrease in short-term borrowings	**13**	(6,664,906)	(4,824,666)
Share capital increase	**12**	-	67,903,040
Dividends paid	**12**	(3,087,001)	-
Net cash generated from financing activities		**104,217,564**	**4,394,374**
Total net increase in cash and cash equivalents		**17,657,099**	**778,772**
Cash and cash equivalents at the beginning of the year	**11**	1,038,673	259,901
Cash and cash equivalents at the end of the year		**18,695,772**	**1,038,673**

The accompanying notes are an integral part of the Consolidated Financial Statements

Statement of Changes in Equity

(in Euro)	Share capital	Other reserves	Retained earnings	Total equity
At December 31, 2014	**28,000,000**	**53,128,382**	**764,928**	**81,893,310**
Profit for the year	-	-	342,123	342,123
Remeasurements of employee benefit obligations	-	-	1,325	1,325
Total comprehensive income for the year	-	-	**343,448**	**343,448**
Reclassifications	-	519,931	(519,931)	-
Shareholders transactions				
Proceeds from sale of shares	6,300,000	62,917,988	-	69,217,988
As of December 31, 2015	**34,300,000**	**116,566,301**	**588,445**	**151,454,746**
Profit for the year	-	-	8,208,832	8,208,832
Remeasurements of employee benefit obligations	-	-	(10,606)	(10,606)
Total comprehensive income for the year	-	-	**8,198,226**	**8,198,226**
Reclassifications	-	17,107	(17,107)	0
Shareholders transactions				
Dividend distribution		(3,087,001)	-	**(3,087,001)**
As of December 31, 2016	**34,300,000**	**113,496,407**	**8,769,564**	**156,565,972**

The accompanying notes are an integral part of the Consolidated Financial Statements

Notes to the Separate Financial Statements

1 General information

Massimo Zanetti Beverage Group S.p.A. (the "**Company**"), 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. (hereinafter also referred to as "**MZ Industries**"), based in Luxembourg.

The Company and its subsidiaries (hereinafter referred to as 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, 2016 ("**Separate Financial Statements**"), approved by the Company's Board of Directors on March 1, 2017, 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 Group 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 reported in the income statement for the year, as required or allowed by IFRS, such as gains/losses from *cash flow hedge*, remeasurement of employee benefit obligations and currency translation differences; and
- 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. Borrowing 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 borrowing costs 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 balance sheet 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 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

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.

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 derecognized from the statement of financial position and charged against the provision 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 balance sheet 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 balance sheet 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 recognized 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.

Provisions

Provisions are recognized 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 recognized 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

Revenues are recognized at the fair value of the consideration received from the sale of goods and services in the ordinary course of business. Revenues are stated net of value-added tax, expected returns, allowances, discounts and certain marketing activities arranged together with customers, where the value depends on the revenue generated.

Revenues from the sale of goods are recognized when the risks and rewards of owning the asset are transferred to the purchaser, the selling price is agreed or determinable and collection is expected.

Cost recognition

Costs are recognized 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 recognizes 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 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 recognized, 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 recognized 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 recognized 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

Accounting standards, amendments and interpretations adopted by the company at January 1, 2016
The company applied for the first time the following accounting standards, amendments and interpretations as of January 1, 2016:

- amendment to IFRS 11 – *Joint Arrangements – "Accounting for acquisitions of interests in joint operations"* related to the recognition of the acquisition of interests in a joint operation that is a business;
- amendments to IAS 16 – *Property, plant and equipment* and IAS 41 – *Agriculture – "Bearer Plants"* related to the accounting treatment of bearer plants in accordance with IAS 16 instead of IAS 41;
- amendments to IAS 16 - *Property, plant and Equipment* and IAS 38 – *Intangibles Assets – "Clarification of acceptable methods of depreciation and amortisation",* which clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset;
- amendment to IAS 1 – "*Disclosure Initiative*" which clarifies, inter alia, that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures;
- amendment to IFRS 10 – *Consolidated Financial Statements*, IFRS 12 – *Disclosure of interests in other entities* and IAS 28 – *Investments in associates e joint ventures* - "*Investment Entities: Applying the Consolidation Exception*" related to the changes due to the application of the consolidation exception granted to investment entities;
- amendment to IAS 27 – *Equity Method in Separate Financial Statements* which introduces the possibility of measuring the investments in subsidiaries, jointly controlled companies and associates using the equity method in separate financial statements.
- "*Annual Improvements to IFRSs: 2010-2012 Cycle*" and "*Annual Improvements to IFRSs: 2012-2014 Cycle*" which partially integrate the standards pre-existing in the annual improvement process of IFRS.

The application of the above standards and interpretations had no significant effects on the separate financial statements.

Accounting standards, amendments and interpretations, endorsed by the European Union, whose application is not yet mandatory and that the company decided not to adopt early

At the reporting date, the competent bodies of the European Union had not yet completed the endorsement process required to adopt the following standards and amendments.

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers,* subsequently integrated in April 2016 by amendments not yet endorsed by the European Union. The aim is to improve the quality and consistency of revenue recognition. Under this standard, revenue shall be recognised by presenting in the best manner possible the fact that the performance obligations identified in contracts with customers have been met. The standard introduces a decision-making process comprised of five stages underlying revenue recognition.

In July 2014, the IASB issued the complete version of IFRS 9 – *Financial Instruments* introducing significant changes to the classification, measurement and recognition of financial assets and liabilities, the impairment of financial assets and hedge accounting. The standard is expected to apply from the year beginning on January 1, 2018. However, early application is permitted.

The company is currently considering the implementation approach and the accounting impact of the introduction of the above standards.

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

At the reporting date, the competent bodies of the European Union had not yet completed the endorsement process required to adopt the following standards and amendments.

In January 2016, the IASB issued IFRS 16 – *Leases*, which will replace IAS 17 – *Leases* and IFRIC 4, SIC-15 and SIC-27, introducing a single measurement and recognition model of leases for the lessee which, subject to certain exceptions, provides for the recognition of the leased asset and the related liability. This standard should be applied as of January 1, 2019. However, early application is permitted, but only for companies which adopted early IFRS 15 - *Revenue from Contracts with Customers*. The Group is currently considering the implementation approach and the accounting impact of the introduction of the above standard.

In January 2014, the IASB issued IFRS 14 – *Regulatory deferral accounts,* whereby IFRS first-time adopters may continue to recognise the amounts related to the rate regulation in accordance with the previous GAAP. In order to improve the comparability with the entities that already apply IFRS and which do not recognise these amounts, the standard requires the separate presentation of the rate regulation effect from the other items. The endorsement process has been suspended pending the new standard on rate-regulated activities.

In September 2014, the IASB issued an amendment to IFRS 10 - *Consolidated Financial Statements* and IAS 28 - *Investments in associates and joint ventures* – "*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture"*, in order to resolve the current conflict about the measurement of the profit or loss arising from sale or contribution of a non-monetary asset to a joint venture or associate in return for an interest in the latter's capital. At present, the IASB has suspended the application of this amendment which was postponed until completion of the IASB project on the equity method.

In January 2016, the IASB issued amendments to IAS 12 – *Income Taxes* and IAS 7 – *Statement of Cash Flows* related to some clarifications about the recognition of deferred taxes on debt instrumnets measured at fair value and the disclosure to be provided about changes to financial liabilities, respectively. These amendments are expected to apply from the year beginning on January 1, 2017.

In June 2016, the IASB issued amendments to IFRS 2 – *Share-based payments* which introduced, inter alia, some requirements about the accounting treatment of vesting and non-vesting conditions in the measurement of cash-settled plans and changes to the classification as cash-settled and equity-settled plans. These amendments are expected to apply from the year beginning January 1, 2018.

In September 2016, the IASB issued an amendment to IFRS 4 – *Insurance Contracts* which reflects some accounting consequences due to the implementation of IFRS 9 – *Financial Instruments* pending the preparation of the standard that will replace IFRS 4. This amendment will be applicable from the year beginning January 1, 2018.

In December 2016, the IASB issued:

- "*Annual Improvements to IFRSs: 2014-2016 Cycle*" which partially integrate the standards pre-existing in the annual improvement process of IFRS. These amendments apply from the year beginning January 1, 2018;
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* which sets the exchange rate to be used in transactions providing for foreign currency advances to be paid or collected. This interpretation is expected to apply from the year beginning January 1, 2018; and
- amendment to IAS 40 – *Investment property* which clarifies the requirements to recognise transfers from/to "investment property". The amendment is expected to apply from the year beginning January 1, 2018.

Except for that set out in relation to IFRS 16, the company will adopt the new standards and amendments according to the expected application date, and will consider the potential impacts on the separate financial statements, once these are 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 results have been influenced by the provision of financial resources that the Company issued to its subsidiary Massimo Zanetti Beverage SA to make available to it and its subsidiaries the cash necessary to finalize the acquisition of Nutricafés S.A. (hereinafter "**Nutricafés**") and a minority shareholding in Club Coffee LP (hereinafter "Club Coffee) as reported in more details in the section "Relevant Events occurred in the fiscal Year ended on December 31, 2016) included in the Management Report.

The Company's results for 2015 were impacted by non-recurring charges, classified under "Other operating costs". The Euro 3,053 thousand balance includes the costs associated with the Company's IPO and not related to the increase in share capital.

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 centralized with Group management who identifies, assesses and hedges financial risks in close cooperation with the Group's and Company'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 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 operational viewpoint, the instruments used by the Company are deemed of a hedging nature.

The notional value of interest rate swaps outstanding as at December 31, 2016 totaled Euro 20,700 thousand (Euro 26,232 thousand as at December 31, 2015). Interest rate swaps outstanding as at December 31, 2016 had a negative fair value of Euro 1,748 thousand (negative fair value of Euro 2,318 thousand as at December 31, 2015).

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 Company's non-current borrowings bore floating rates of interest as at December 31, 2016 and 2015. After considering the impact of interest rate swaps, the exposure to floating interest rate risk was reduced to 88% and 47% respectively at December 31, 2016 and 2015.

An increase/decrease of 1% (100 basis points) in interest rates compared to those applicable as at December 31, 2016 and 2015, 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 1.486 thousand in 2016 and Euro 237 thousand in 2015.

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 2016 includes net foreign exchange gains of Euro 677 thousand (net foreign exchange losses of Euro 3,292 thousand in 2015).

An increase/(decrease) of 1% (100 basis points) in Euro/USD exchange rates compared to those applicable as at December 31, 2016 and 2015, with all other variables remaining unchanged, would have resulted in a (decrease)/increase in profit before taxation for the year of Euro (207)/211 thousand in 2016 and increase/(decrease) of Euro 184/(188) thousand in 2015.

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.

As at December 31, 2016, the Company had lines of credit totaling Euro 16,000 thousand (Euro 15,000 thousand as at December 31, 2015), 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, 2016 and 2015:

As of December 31, 2016 *(in thousands of Euro)*	**Book Value**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	185,786	31,842	113,334	48,587
Other Current and Non-Current Liabilities	6,513	5,371	1,142	-
Trade payables	874	874	-	-
Total	**193,173**	**38,087**	**114,476**	**48,587**

As of December 31, 2015 *(in thousands of Euro)*	**Book Value**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	79,573	45,594	40,354	7,231
Other Current and Non-Current Liabilities	6,089	4,168	1,921	-
Trade payables	1,928	1,928	-	-
Total	**87,590**	**51,690**	**42,275**	**7,231**

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 Consolidated Financial Statements at December 31, 2016 and 2015, 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 as at December 31, 2016 and 2015:

As of December 31, 2016 *(in thousands of Euro)*	**Loans and receivables**	**Asset / liabilities at fair value**	**Total financial assets / liabilities**	**Non-financial assets / liabilities**	**Total**
Assets					
Current and Non-Current Financial Receivables	62,472	-	**62,472**	-	**62,472**
Other current assets	1,500	-	**1,500**	277	**1,777**
Cash and cash equivalents	18,696	-	**18,696**	-	**18,696**
Total assets	**82,668**	**-**	**82,668**	**277**	**82,945**
Liabilities					
Current and non-current borrowings	185,786		**185,786**	-	**185,786**
Trade payables	874		**874**	-	**874**
Other Current and Non-Current Liabilities	1,792	1,748	**3,540**	2,972	**6,512**
Total liabilities	**188,452**	**1,748**	**190,200**	**2,972**	**193,172**

As of December 31, 2015 *(in thousands of Euro)*	**Loans and receivables**	**Asset / liabilities at fair value**	**Total financial assets / liabilities**	**Non-financial assets / liabilities**	**Total**
Assets					
Current and Non-Current Financial Receivables	35,665	-	**35,665**	-	**35,665**
Other current assets	696	-	**696**	3,697	**4,393**
Cash and cash equivalents	1,039	-	**1,039**	-	**1,039**
Total assets	**37,400**	**-**	**37,400**	**3,697**	**41,097**
Liabilities					
Current and non-current borrowings	79,572		**79,572**	-	**79,572**
Trade payables	1,928		**1,928**	-	**1,928**
Other Current and Non-Current Liabilities	3,036	2,318	**5,354**	735	**6,089**
Total liabilities	**84,536**	**2,318**	**86,854**	**735**	**87,589**

Fair value estimate

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 for financial assets and liabilities that are measured at fair value as at December 2016 and 2015:

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 as at December 31, 2016	-	1,748	-	**1,748**
Liabilities as at December 31, 2015	-	2,317	-	**2,317**

The fair value of derivative instruments in place at December 31, 2016 and 2015 is measured in accordance with Level 2.

Financial instruments with a Level 2 fair value include derivatives designed to reduce exposure to economic risks that do not qualify for hedge accounting. 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, 2016 and 2015. 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 characterize 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 judgment 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 its recoverable amount. The identification of such indicators requires that management exercise subjective judgment 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 judgments 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 following table sets for a breakdown of investment properties:

(in thousands of Euro)	**Software, licences and other immaterial assets**	**Asset under development**	**Total**
As at December 31, 2014	**85**	**-**	**85**
Of which:			
- historical cost	*516*	-	**516**
- accumulated depreciation	*(431)*	-	**(431)**
Additions	5	318	**323**
Amortization	(27)	-	**(27)**
As at December 31, 2015	**63**	**318**	**381**
Of which:			
- historical cost	*521*	*318*	**839**
- accumulated depreciation	*(458)*	-	**(458)**
Additions	228	-	**228**
Disposals			**-**
Reclassifications	318	(318)	**-**
Amortization	(131)	-	**(131)**
As at December 31, 2016	**478**	**-**	**478**
Of which:			
- historical cost	1,068	-	***1,068***
- accumulated depreciation	(589)	-	***(589)***

6 Property, Plant and Equipment

The following table sets for a breakdown of investment properties:

(in thousands of Euro)	**Land and buildings**	**Plant and machinery**	**Other**	**Total**
As at December 31, 2014	**9,677**	**456**	**2,340**	**12,473**
Of which:				
- historical cost	*11,000*	*1,002*	*3,014*	15,016
- accumulated depreciation	*(1,323)*	*(546)*	*(674)*	(2,543)
Additions	4	34	1	**39**
Disposals		-	(1)	***(1)***
Depreciation	(294)	(73)	(128)	***(495)***
As at December 31, 2015	**9,387**	**417**	**2,212**	**12,016**
Of which:				
- historical cost	*11,004*	*1,035*	*3,011*	15,050
- accumulated depreciation	*(1,617)*	*(618)*	*(799)*	(3,034)
Additions	2,105	63	177	**2,345**
Disposals		(0)	(2)	***(2)***
Depreciation	(289)	(73)	(144)	***(506)***
Reclassifications		1	(1)	**-**
As at December 31, 2016	**11,203**	**407**	**2,243**	**13,853**
Of which:				
- historical cost	*13,109*	*1,094*	*3,084*	17,288
- accumulated depreciation	*(1,906)*	*(687)*	*(841)*	(3,435)

Property, plant and equipment mainly includes net book value of the building located in Villorba (Treviso), headquarter of the Group together with the associated capital expenditure.

The investments of the year in land and buildings amount to Euro 2,105 thousand and mainly refer to a building to be used for office purposes following the strengthening of the Company's management structure. The building is held under finance lease.

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, 2016 and 2015:

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, 2016	6,023	51,679	4,769	**62,471**
As at December 31, 2015	1,969	27,067	6,629	**35,665**

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

Interest rate	**Year**	**Counterparty**	**Currency**	**Initial principal amount**	**As at December 31**	
					2016	**2015**
				(in thousands)	*(in thousands of Euro)*	
Euribor 3M + 1.5%	2016	MZBSA	EUR	29,620	27,970	-
7.26%	2015	Meira OY	EUR	16,416	13,600	15,158
Libor 3M + 3%	2014	Boncafe International	USD	21,366	19,199	18,589
Libor 3M + 3%	2014	MZB (Thailand) Ltd	THB	83,275	1,702	1,918
Total					**62,471**	**35,665**
of which non-current					56,448	33,696
of which current					6,023	1,969

The loan granted to Massimo Zanetti Beverage SA amounts to Euro 27,920 thousand at the reporting date and refers to the restructuring of the Group's indebtedness, specifically, the early repayment of a particularly expensive bank loan pertaining to Nutricafes attributable to the former management.

See Note 23 - Related Party Transactions for further information about current and non-current financial receivables.

8 Investments in Subsidiaries

The following table sets for a breakdown of investment properties:

(in thousands of Euro)	**As at December 31, 2014**	**Increase/ (Decrease)**	**As at December 31, 2015**	**Increase/ (Decrease)**	**As at December 31, 2016**
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	87,397	-	87,397	68,108	*155,505*
Segafredo Zanetti Coffe System SpA	3,341	-	3,341	-	*3,341*
Massimo Zanetti Beverage (Thailand) Ltd	339	-	339	-	*339*
Boncafe International Pte Ltd	43,648	22	43,670	-	*43,670*
Total	**180,045**	**22**	**180,067**	**68,108**	**248,175**

The Euro 68,108 thousand increase recorded by Massimo Zanetti Beverage SA refers to a capital injection for future share capital increase, mainly related to the *i)* acquisition of Nutricafes and the *ii)* acquisition of the investment in Club Coffee .

The following table sets forth the information relating to the percentage held in the subsidiaries’ share capital and their equity as at December 31, 2016.

As of December 31, 2016							
(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*	*46,678*	42,258	*46,678*
La San Marco SpA	90.4%	-	Gorizia	*EUR 7,000*	*21,995*	1,420	*19,879*
Segafredo Zanetti Espresso Worldwide Ltd	8.6%	89.1%	Geneva	*CHF 38,000*	*19,209*	1,642	*1,652*
Massimo Zanetti Beverage SA	100%	-	Geneva	*CHF 149,900*	*127,644*	155,505	*127,644*
Segafredo Zanetti Coffe System SpA	16.7%	83.3%	Treviso	*EUR 6,000*	*9,504*	3,341	*1,584*
Massimo Zanetti Beverage (Thailand) Ltd	49.0%	51.0%	Bangkok	*THB 15,300*	*1,072*	339	*525*
Boncafe International Pte Ltd	100.0%	-	Singapore	*SGD 3,200*	*4,762*	43,670	*4,762*
Total						**248,175**	***202,725***

No impairment indicator were noted as at December 31, 2016 also considering the results of the impairment test performed at Group level on the Group CGU as at December 31, 2016.

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)	**2016**	**2015**
Balance as at January 1	**3,606**	**1,351**
Of which:		
- deferred tax assets	*3,639*	*1,385*
- deferred tax liabilities	*(33)*	*(34)*
Charged to the income statement	(292)	933
Credited/(Charged) to the other comprehensive income	3	(1)
Other changes	*9*	7
Tax impact of transaction costs related to the increase in share capital	-	1,316
Balance as at December 31	**3,326**	**3,606**
Of which:		
- deferred tax assets	*3,358*	*3,639*
- deferred tax liabilities	*(32)*	*(33)*

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 following table shows a breakdown of amortization, depreciation and impairment:

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Other receivables from related parties	1,500	696
Tax receivables	108	1,306
Other receivables and current assets	169	2,391
Other current assets	**1,777**	**4,393**

See Note 23 - "*Related Party Transactions*" for further information about "Other receivables from related parties".

"Tax receivables" mainly relate to the VAT credit amounting to Euro 104 thousand at December 31, 2016 (Euro 1,301 thousand at December 31, 2015).

11 Cash and cash equivalents

The following table shows a breakdown of amortization, depreciation and impairment:

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Cash at bank	18,693	1,034
Cash and cash equivalents	3	5
Total	**18,696**	**1,039**

12 Equity

Share capital

At December 31, 2016, issued and fully paid share capital of the Company amounted to Euro 34,300 thousand and relates to 34,300,000 ordinary shares without nominal value.

The Euro 6,300 thousand increase in 2015 is due to the Company's listing on the STAR segment of the Borsa Italiana's stock market (Mercato Telematico Azionario or MTA) on June 3, 2015. This also resulted in the issue of 6,300 thousand new ordinary shares.

Other reserves and retained earnings

Other reserves and retained earnings are detailed as follow:

(in thousands of Euro)	*Legal reserve*	*Share premium reserve*	*Other reserves*	**Other reserves**	**Retained earnings**
At December 31, 2014	*3,742*	-	*49,386*	**53,128**	**765**
Profit for the year	-	-	-	-	342
Remeasurements of employee benefit obligations	-	-	-	-	1
Total comprehensive income for the year	-	-	-	-	**343**
Reclassifications	*26*	-	*494*	**520**	(520)
Shareholders transactions	-	-	-	-	-
Proceeds from sale of shares	-	*62,918*	-	**62,918**	-
As of December 31, 2015	**3,768**	**62,918**	**49,880**	**116,566**	**588**
Profit for the year	-	-	-	-	8,209
Remeasurements of employee benefit obligations	-	-	-	-	(11)
Total comprehensive income for the year	-	-	-	-	**8,198**
Reclassifications	17	-	-	17	(17)
Shareholders transactions	-	-	-	-	-
Dividend distribution	-	-	*(3,087)*	(3,087)	-
As of December 31, 2016	**3,786**	**62,918**	**46,793**	**113,496**	**8,770**

The share premium reserve, amounting to Euro 62,918 thousand as at December 31, 2016, is recognised net of the listing costs of Euro 3,862 thousand incurred in 2015 and related to the share capital increase in accordance with IAS 32. The remaining costs related to the public listing for an amount of Euro 3,053 thousand were recognised in other operating costs in 2015.

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 2016**	**Potential uses**	**Amount available**
Share capital	**34,300**		
Legal reserve	*3,786*	*B*	-
Share premium	*62,918*	*A, B, C*	*59,844*
Other equity-related reserves	*46,793*	*A, B, C*	*46,793*
Total other reserves	***113,496***		
Retained earnings	**8,770**	*A, B, C*	*8,770*
Total equity	**156,566**		
Total			**115,406**
Amount distributable			*115,406*

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

13 Current and Non-current borrowings

The following tables sets forth a breakdown of current and non-current borrowings as at December 31, 2016 and 2015:

As of December 31, 2016 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	14,369	107,070	47,901	169,340
Short-term borrowings	5,999	-	-	5,999
Finance lease liabilities	90	873		963
Loans from related parties	9,484	-	-	9,484
Total	**29,943**	**107,943**	**47,901**	**185,786**

As of December 31, 2015 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	6,697	36,141	6,835	49,673
Short-term borrowings	8,497	-	-	8,497
Loans from related parties	21,403	-	-	21,403
Total	**36,597**	**36,141**	**6,835**	**79,573**

Long-term borrowings

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

Interest rate	Year	Initial principal amount (in thousands)	As at December 31 2016	2015
			(in thousands of Euro)	
denominated in Euro				
Euribor 6M + 3.00%	2013	20,000	8,460	11,428
Euribor 3M + 3.50%	2013	12,000	2,518	7,419
Euribor 6M + 2.30%	2015	20,000	-	19,826
Euribor 3M + 1.25%	2015	12,000	9,667	11,000
Euribor 3M + 1.10%	2016	15,000	14,969	-
Euribor 6M + 1.35%	2016	50,000	50,000	-
Euribor 6M + 0.90%	2016	9,000	8,987	-
Euribor 6M + 1.05%	2016	50,000	49,787	-
Euribor 6M + 0.9%	2016	10,000	9,995	-
Euribor 3M + 0.75%	2016	10,000	9,995	-
Euribor 6M +1%	2016	5,000	4,962	-
Total			**169,340**	**49,673**
of which non-current			*154,971*	*42,976*
of which current			*14,369*	*6,697*

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 favor of third parties or to vary controlling shareholdings without the express consent of the financial institution;
- cross-defaults: such clauses foresee that in the case in which 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 covenants and financial covenants, which had been complied with at December 31, 2016 and 2015. Therefore, there are no events of default to be reported.

In the second half of 2016, also in order to raise the resources to finance the acquisition of Nutricafés , the Group launched a process for the restructuring of its non-current financial indebtedness, in order to extend repayment plans and optimise their cost, by concluding new long-term financing agreements at better conditions than some previous agreements, for which gradual early repayment has been started. As a result, all new financing were concentrated with the company.

In detail, to finance the acquisition of the Portuguese company Nutricafés ., the Company has taken out the following loans: i) from Banca Intesa San Paolo dated August 11, 2016 for a nominal amount of Euro 50,000 thousand, with maturity on September 30, 2022 and ii) from Rabobank, dated September 6, 2016 for a nominal amount of Euro 50,000 thousand and maturity on September 6, 2022.

Furthermore, during the year, the Group entered into medium/long-term bank loans totalling Euro 64,000 thousand (of which Euro 49,000 thousand disbursed at December 31, 2016), with maturity dates between 2019 and 2021, as described below:

- UBI Banca – entered into on March 21, 2016 for a principal amount of Euro 15,000 thousand and with a maturity date of March 21, 2021;

- FriulAdria – entered into on May 15, 2016 for a principal amount of Euro 9,000 thousand and with maturity date on June 30, 2020;
- Banca Sella – entered into on October 4, 2016 for a principal amount of Euro 10,000 thousand and with a maturity date of October 31, 2021;
- Banca Popolare dell'Emilia Romagna on October 25, 2016 for a principal amount of Euro 10,000 thousand, with maturity date on October 25, 2020; and
- Banca Nazionale del Lavoro – entered into on October 12, 2016 for a principal amount of Euro 20,000 thousand, comprised of two lines of Euro 10,000 thousand each, with maturity dates on April 12, 2020 and October 12, 2021, respectively. At December 31, 2016, this amount was disbursed by Euro 5,000 thousand.

As part of the above-mentioned restructuring process, in the second half of the year, the Euro 20,000 thousand loan granted by Unicredit to the Company was repaid earlier.

The following table reports the long-term borrowings all in Euros by variable and fixed rates of interest.

	As at December 31	
(in thousands of Euro)	**2016**	**2015**
Principal amount of long-term borrowings	169,340	49,964
Notional value of derivatives on interest rates	20,700	26,232
Long-term borrowings converted at fixed rate	12%	53%
Remaining portion of long-term borrowings at variable rate	88%	47%

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". See 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, 2016. Settlement of the aforementioned borrowings is expected in 2017.

Loans from related parties

Please refer to Note 23 – Related Party Transactions for further details of loans from related parties.

The following table sets forth a breakdown of the Company's net financial indebtedness as at December 31, 2016 and 2015, determined in accordance with the CONSOB communication dated July 28, 2006 and in compliance with the Recommendation ESMA/2013/319:

	(in thousands of Euro)	As at December 31	
		2016	**2015**
A	Cash and cash equivalents	(3)	(5)
B	Cash at bank	(18,693)	(1,033)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(18,696)**	**(1,038)**
E	**Current financial receivables**	**(6,023)**	**(1,969)**
F	Current loans	5,999	8,497
G	Current portion of non-current loans	14,460	6,697
H	Other current financial payables	9,484	21,403
I	**Current indebtedness (F+G+H)**	**29,943**	**36,597**
J	**Net current indebtedness (I+E+D)**	**5,224**	**33,590**
K	Non-current loans	154,971	42,976
L	Issued bonds	-	-
M	Other non-current financial payables	873	-
N	**Non-current indebtedness (K+L+M)**	**155,844**	**42,976**
O	**Net financial indebtedness (J+N)**	**161,067**	**76,566**
	of which due to third parties	*157,607*	*57,132*
	of which due to related parties	*3,461*	*19,434*

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:

(in thousands of Euro)	For the year ended December 31	
	2016	**2015**
Balance as at January 1	**242**	**209**
Current service costs	52	34
Interest expenses	5	5
Benefits paid	(52)	(4)
Remeasurements of employee benefits	14	(2)
Balance as at December 31	**261**	**242**

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

(in thousands of Euro)	As at December 31	
	2016	**2015**
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	3.02%	3.37%
Demographic assumptions		
Probability of resignation	4.78%	5.74%
Probability of advance payments to employees	2.38%	0.78%

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, 2016*		*as at December 31, 2015*	
Inflation rate	0.50%	4	(4)	3	(4)
Discount rate	0.50%	(10)	11	(8)	9
Demographic assumptions					
Probability of resignation	0.50%	0	(0)	1	(1)
Probability of advance payments to employees	0.50%	0	0	1	(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 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:

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. 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 retirement, 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 five 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, 2016	261	20	22	116	275	**433**
Expected benefits paid to employees as at December 31, 2015	242	15	20	62	333	**430**

15 Other Current and Non-Current Liabilities

The following table shows a breakdown of amortization, depreciation and impairment:

(in thousands of Euro)	As at December 31 2016	2015
Non-current interest rate derivatives	1,142	1,921
Other non-current liabilities	**1,142**	**1,921**
Payables to personnel	118	61
Current interest rate derivatives	606	396
Payables to social security institutions	149	71
Tax payables	437	151
Other payables and current liabilities	2,268	453
Other payables due to related parties	1,792	3,036
Other current liabilities	**5,371**	**4,168**

See comments in Note 3 on fair value estimate for further details regarding liabilities related to derivative instruments.

See Note 23 – Related Party Transactions for further details regarding other payables due to related parties.

16 Revenue

Revenue amounted to Euro 6,607 thousand in the year ended December 31, 2016 (Euro 9,723 thousand in 2015), entirely relating to related party transactions and, in particular, to management fees to subsidiaries.

(in thousands of Euro)	For the year ended December 31 2016	2015
Revenue from related parties	6,607	9,273
Total	**6,607**	**9,273**

17 Purchases of Services, Leases and Rentals

The following table shows a breakdown of amortization, depreciation and impairment:

(in thousands of Euro)	For the year ended December 31 2016	2015
Advertising and promotions	2,070	1,924
Consultancy and collaborations	942	542
Maintenance, repair and support	165	170
Transportation costs	185	119
Utilities	108	95
Insurance	29	20
Leases and rentals	32	8
Other services	972	554
Total	**4,503**	**3,432**

"Advertising and promotions" amounted to Euro 2,070 thousand in the year ended December 31, 2016 (Euro 1,924 thousand in 2015) and mainly include costs incurred for the Group sponsorship.

18 Personnel Costs

The following table shows a breakdown of amortization, depreciation and impairment:

(in thousands of Euro)	For the year ended December 31 2016	2015
Wages and salaries	3,776	1,036
Social security contributions	620	346
Contributions to pension funds	9	10
Other personnel-related costs	30	56
Accruals to post-employment benefits	50	34
Directors' fees	884	872
Total	**5,368**	**2,354**

Wages and salaries amount to Euro 3,776 thousand at December 31, 2016. The Euro 2,740 thousand increase is mainly due to the hiring of new managers to strengthen the Company's management structure and the accrual related to the company's long-term incentive plan.

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.)	2016	2015	2016	2015
Executives	5	2	6	3
Managers and white collar staff	12	9	13	10
Blue-collar workers	13	14	14	12
Total	**30**	**25**	**33**	**25**

19 Other Operating Costs

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	2016	2015
Costs associated with the IPO	-	3,053
Indirect taxes and levies	94	87
Donations	38	35
Other costs	35	36
Total	**167**	**3,211**

In 2015, other operating costs included Euro 3,053 thousand associated with the Company's IPO and not related to the increase in share capital (see Note 12).

20 Amortization, Depreciation and Impairment

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	2016	2015
Depreciation of property, plant and equipment	506	495
Amortization of intangible assets	131	27
Total	**637**	**522**

21 Finance income and costs

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Interest income from related parties	1,489	1,169
Dividends from subsidiaries	11,588	3,898
Total finance income	**13,077**	**5,067**
Interest expense	(1,663)	(2,429)
Interest expense from related parties	(202)	(648)
Net foreign exchange gains/(losses)	677	(3,292)
Net fair value losses on derivative financial instruments	(273)	(20)
Other finance costs	(399)	(759)
Total finance costs	**(1,861)**	**(7,148)**
Total net finance income/(expense)	**11,216**	**(2,081)**

See Note 23 – Related Party Transactions for further details regarding interest income from related parties and interest expense from related parties.

During the year ended December 31, 2016 subsidiaries distributed dividends to the Company for Euro 11,588 thousand (Euro 3,898 thousand in 2015), of which: *i)* Euro 2,103 thousand from Segafredo Zanetti S.p.A. (Euro 2,716 thousand in 2015), *ii)* Euro 1,135 thousand from La San Marco S.p.A. (Euro 1,015 thousand in 2015) and *iii)* Euro 750 thousand from Segafredo Zanetti Coffee System S.p.A. (Euro 166 thousand in 2015) and *iv)* Euro 7,600 thousand from Massimo Zanetti Beverage SA.

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).
See Note 3 – Management of Financial Risks – Fair value estimate for further details on net fair value losses on derivative financial instruments.

22 Income Tax Expense

The following table shows a breakdown of amortization, depreciation and impairment:

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Taxes related to prior periods	59	(80)
Benefit from group tax consolidation	1,155	1,812
Deferred tax	(292)	933
Total	**922**	**2,665**

The following table provides a reconciliation between theoretical and effective income tax expenses for the years ended December 31, 2016 and 2015.

	For the year ended December 31	
(in thousands of Euro)	**2016**	**2015**
Profit (loss) before tax	7,287	(2,323)
Theoretical taxes	**(2,004)**	**639**
Taxes related to prior periods	59	(80)
ACE and ROL	133	1,219
Change in IRES rate	-	(90)
Non-taxable dividends	3,027	1,018
Permanent differences and minor items	(294)	(41)
Income tax benefit	**922**	**2,665**

Measurement of deferred tax assets and deferred tax liabilities takes into consideration the change in IRES tax rate from 27.5% to 24.0% starting January 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, during the years ended December 31, 2016 and 2015, 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 the years ended December 31, 2016 and 2015, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as at December 31, 2016 and 2015:

(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, 2016	18	6,589	-	**6,607**	6,607	**100.0%**
For the year ended December 31, 2015	18	9,255	-	**9,273**	9,273	**100.0%**
Other income						
For the year ended December 31, 2016	36	8	-	**44**	188	**23.3%**
For the year ended December 31, 2015	36	-	-	**36**	51	**71.2%**
Purchases of goods						
For the year ended December 31, 2016	-	10	-	**10**	49	**20.1%**
For the year ended December 31, 2015	-	7	-	**7**	46	**15.2%**
Purchases of services, leases and rentals						
For the year ended December 31, 2016	13	-	-	**13**	4,503	**0.3%**
For the year ended December 31, 2015	35	-	-	**35**	3,432	**1.0%**
Personnel costs						
For the year ended December 31, 2016	-	-	3,536	**3,536**	5,368	**65.6%**
For the year ended December 31, 2015	-	-	872	**872**	2,354	**37.0%**
Other operating costs						
For the year ended December 31, 2016	35	-	-	**35**	167	**20.9%**
For the year ended December 31, 2015	35	-	-	**35**	3,211	**1.1%**
Finance income						
For the year ended December 31, 2016	-	13,077	-	**13,077**	13,077	**100.0%**
For the year ended December 31, 2015	-	5,067	-	**5,067**	5,067	**100.0%**
Finance costs						
For the year ended December 31, 2016	-	202	-	**202**	1,861	**10.9%**
For the year ended December 31, 2015	-	648	-	**648**	7,148	**9.1%**
Impact of transactions on statement of financial position						
Non-current financial receivables						
As of December 31, 2016	-	56,448	-	**56,448**	56,448	**100.0%**
As of December 31, 2015	-	33,696	-	**33,696**	33,696	**100.0%**
Other current assets						
As of December 31, 2016	22	1,478	-	**1,500**	1,777	**84.4%**
As of December 31, 2015	43	653	-	**696**	4,393	**15.8%**
Current financial receivables						
As of December 31, 2016	-	6,023	-	**6,023**	6,023	**100.0%**
As of December 31, 2015	-	1,969	-	**1,969**	1,969	**100.0%**
Current borrowings						
As of December 31, 2016	-	9,484	-	**9,484**	29,943	**31.7%**
As of December 31, 2015	-	21,403	-	**21,403**	36,596	**58.5%**
Other current liabilities						
As of December 31, 2016	-	1,792	-	**1,792**	5,371	**33.4%**
As of December 31, 2015	-	3,036	-	**3,036**	4,168	**72.8%**

The following table shows details of other balances resulting from related party transactions at December 31, 2016 and 2015:

(in thousands of Euro)	**Subsidiaries**	**Total related parties**	**Total**	**Percentage of Total**
Guarantees				
As of December 31, 2016	4,413	**4,413**	4,413	**100.0%**
As of December 31, 2015	25,000	**25,000**	25,000	**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 jointly-controlled companies. 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. Group management also provides assistance to related parties in the preparation of internal reporting and in the management of human resources.

b) Finance income
Finance income include *i)* dividends from subsidiaries amounting to Euro 11,588 thousand for the year ended December 31, 2016 (Euro 3,898 thousand in 2015); see Note 21 for further details and *ii)* interest income amounting to Euro 1,489 thousand for the year ended December 31, 2016 (Euro 1,169 thousand in 2015) generated from the current and non-current financial receivables from subsidiaries as at December 31, 2016 and 2015 as extensively described under section *d)*.

c) Finance costs
Finance costs amounting to Euro 202 thousand for the year ended December 31, 2016 (Euro 648 thousand in 2015) are related to interest expenses on the current borrowings from subsidiaries as at December 31, 2016 and 2015, as described below under section f).

d) Current and Non-Current Financial Receivables
Current and non-current financial receivables, totalling Euro 62,471 thousand as at December 31, 2016 (Euro 35,665 thousand as at December 31, 2015), relate to the foreign currency receivables from MZB SA, Boncafe International Pte Ltd, Massimo Zanetti Beverage (Thailand) Ltd (for additional information, see note 7 *"Current and Non-Current Financial Receivables"*) and those from Meira Oy Ltd.

e) Other current assets and other current 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 item ''Other current and assets" and "Other current liabilities'' mainly includes open positions relating to the Group system for payment of VAT and the "tax consolidation statute".

f) Current borrowings
Current borrowings amount to Euro 9,484 thousand at December 31, 2016 (Euro 21,403 thousand at December 31, 2015) and refer to a non-interest-bearing loan to Segafredo Zanetti S.p.A..

g) Guarantees
The Group has provided guarantees in favor of banking institutes on behalf of Group companies. These include:

- a guarantee in favor of BNP Paribas, in the amount of Euro 1,000 thousand at December 31, 2016 (Euro 1,000 thousand at December 31, 2015), in relation 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; and

- a guarantee issued on January 27, 2016 in favor 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 3,413 thousand) at December 31, 2016.

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 3,536 thousand and Euro 872 thousand for the year ended December 31, 2016 and 2015, respectively.

24 Subsequent events

No significant subsequent events were identified.

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 2016 *(in thousands of Euro)*
Audit services	PricewaterhouseCoopers SpA	Company	206
	PricewaterhouseCoopers SpA	Subsidiaries	165
	PricewaterhouseCoopers Network	Subsidiaries	617
Other assurance services	PricewaterhouseCoopers Network	Company	-
	PricewaterhouseCoopers SpA	Subsidiaries	-
Tax and legal services	PricewaterhouseCoopers Network	Company	-
	PricewaterhouseCoopers Network	Subsidiaries	94
Other services	PricewaterhouseCoopers Network	Copmany	89
	PricewaterhouseCoopers Network	Subsidiaries	109

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

	For the year ended December 31			
(in Euro)	**2016**	**of which related parties**	**2015**	**of which related parties**
Revenue	6,607,237	6,607,237	9,273,259	9,273,259
Other income	187,571	43,734	50,551	36,000
Purchases of goods	(48,759)	(9,791)	(46,068)	(7,087)
Purchases of services, leases and rentals	(4,503,028)	(12,869)	(3,432,113)	(34,771)
Personnel costs	(5,368,432)	(3,536,000)	(2,354,323)	(872,000)
Other operating costs	(167,442)	35,000	(3,210,769)	35,000
Amortization, depreciation and impairment	(636,793)		(522,408)	
Operating result	**(3,929,646)**		**(241,871)**	
Finance income	13,077,269	13,077,269	5,066,978	5,066,978
Finance costs	(1,860,850)	(202,460)	(7,147,690)	(647,666)
Loss before tax	**7,286,773**		**(2,322,583)**	
Income tax benefits	922,059		2,664,706	
Profit for the year	**8,208,832**		**342,123**	

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

	As at December 31			
(in Euro)	**2016**	**of which related parties**	**2015**	**of which related parties**
Intangible assets	478,381		380,817	
Property, plant and equipment	13,853,078		12,016,086	
Investments in subsidiaries	248,175,077		180,066,854	
Deferred tax assets	3,356,004		3,639,078	
Non-current financial receivables	56,448,355	56,448,355	33,696,437	33,696,437
Total non-current assets	**322,310,895**		**229,799,272**	
Income tax assets	1,224,409		2,118,414	
Current financial receivables	6,023,255	6,023,255	1,969,252	1,969,252
Other current assets	1,776,711	1,500,076	4,393,351	696,230
Cash and cash equivalents	18,695,772		1,038,673	
Total current assets	**27,720,147**		**9,519,690**	
Total assets	**350,031,042**		**239,318,962**	
Share capital	34,300,000		34,300,000	
Other reserves	113,496,408		116,566,301	
Retained earnings	8,769,062		588,445	
Total equity	**156,565,470**		**151,454,746**	
Non-current borrowings	155,843,607		42,976,054	
Employee benefits	260,755		241,921	
Deferred tax liabilities	31,941		32,931	
Other non-current liabilities	1,142,004		1,921,196	
Total non-current liabilities	**157,278,307**		**45,172,102**	
Current borrowings	29,942,529	9,483,878	36,596,478	21,403,316
Trade payables	874,043		1,927,973	
Other current liabilities	5,370,693	1,791,922	4,167,663	3,036,024
Total current liabilities	**36,187,265**		**42,692,114**	
Total liabilities	**193,465,573**		**87,864,216**	
Total equity and liabilities	**350,031,042**		**239,318,962**	

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

	For the year ended December 31			
(in Euro)	2016	of which related parties	2015	of which related parties
Profit/(loss) before tax	**7,286,773**		**(2,322,583)**	
Adjustments for:				
Amortization, depreciation and impairment	636,793		522,408	
Finance costs, net	(11,216,419)	(12,874,809)	2,080,712	(4,419,312)
Other non-monetary items	52,000		33,513	
Net cash generated/(used in) from operating activities before changes in working capital	**(3,240,853)**		**314,050**	
Decrease in trade payables	(1,053,930)		(1,142,475)	
Changes in other assets/liabilities	5,071,858	(1,347,948)	(1,852,263)	(3,526,050)
Payments of employee benefits	(52,437)		(4,330)	
Interest paid	(1,648,657)		(2,855,989)	
Income tax paid	-		(2,522,000)	
Net cash used in operating activities	**(924,019)**		**(8,063,007)**	
Investments in subsidiaries	(68,108,223)		(22,135)	
Dividends received	8,784,742		1,181,828	
Purchase of intangible assets	(228,567)		(323,091)	
Purchase of property, plant and equipment	(1,330,782)		(37,404)	
Interest received	1,376,490	1,376,490	1,190,462	1,190,269
Increase/(Decrease) in financial receivables	(26,130,106)	(26,130,106)	2,457,745	2,457,745
Net cash generated from/ (used in) investing activities	**(85,636,446)**		**4,447,405**	
Proceeds from long-term borrowings	149,000,000		20,000,000	
Repayment of long-term borrowings	(35,030,530)		(78,684,000)	
Decrease in short-term borrowings	(6,664,906)	(9,816,478)	(4,824,666)	(6,423,922)
Share capital increase	-		67,903,040	
Dividends paid	(3,087,001)		-	
Net cash generated from financing activities	**104,217,564**		**4,394,374**	
Total net increase in cash and cash equivalents	**17,657,099**		**778,772**	
Cash and cash equivalents at the beginning of the year	1,038,673		259,901	
Cash and cash equivalents at the end of the year	**18,695,772**		**1,038,673**	

Attestation of the financial statements pursuant to Article 81-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended and extended

1. We, the undersigned, Massimo Zanetti, in his capacity as Chairman and Chief Executive Officer, and Massimo Zuffi, in his capacity as Manager in Charge of the Financial Reports of Massimo Zanetti Beverage Group S.p.A., hereby declare, 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, 2016.

2. The assessment of the adequacy of the administrative and accounting procedures used in preparing the financial statements, for the year ended December 31, 2016 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 declare 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;

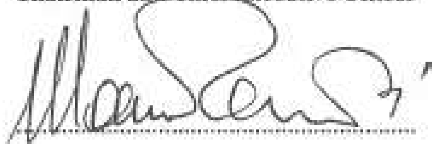
   b) reflect the accounting books and records; and

   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 Company's financial statements.

Villorba (TV), March 1, 2017

Massimo Zanetti
Chairman and Chief Executive Officer



Massimo Zuffi
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 AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the financial statements

We have audited the accompanying financial statements of Massimo Zanetti Beverage Group SpA (hereinafter also the "Company"), which comprise the statement of financial position as of 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of Massimo Zanetti Beverage Group SpA are responsible for the preparation of financial statements that give a true and fair view in compliance 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. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Massimo Zanetti Beverage Group SpA as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance 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. 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the management report and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the management report and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Massimo Zanetti Beverage Group SpA, with the financial statements of the Company as of 31 December 2016. In our opinion, the management report and the information 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 2016.

Treviso, 20 March 2017

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

Massimo Zanetti Beverage Group S.p.A.

Registered office in Via Gian Giacomo Felissent 53 - Villorba (Italy)
Share capital Euro 34,300,000.00 fully paid up
Companies Register of Treviso., tax code and VAT no. 02120510371
REA no. TV- 300188

* * *

Report of the Board of Statutory Auditors to the Shareholders of Massimo Zanetti Beverage Group S.p.A. called in a meeting to approve the financial statements as of 31 December 2016, pursuant to article 153 of Legislative Decree no. 58 of 24 February 1998 and article 2429 paragraph 3 of the Italian Civil Code.

Dear Shareholders,

Massimo Zanetti Beverage Group S.p.A. ("MZBG", the "Issuer" or the "Company") is a company with shares listed on the "STAR" segment of Mercato Telematico Azionario (the Italian Electronic Stock Exchange), organized and managed by Borsa Italiana S.p.A. (the Italian Stock Exchange)("Borsa Italiana") as of 3 June 2015.

The Board of Statutory Auditors in its role of MZBG's supervisory body reports on the activities carried out in 2016 pursuant to article 149 of Legislative Decree no. 58 of 24 February 1998 ("TUF"), articles 2403 and 2429 paragraph 2 of the Italian Civil Code, Consob's recommendations on corporate controls and operations of the Board of Statutory Auditors, the provisions of the Corporate Governance Code (the "Code") adopted by the Company and the rules of conduct issued by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* ("CNDCEC" or the "Italian Accounting Profession").

The current Board of Statutory Auditors was appointed by the Shareholders in their meeting of 15 July 2014 for the period 2014-2016. Its term of office expires with the approval of the financial statements as of 31 December 2016.

In 2016, the Board of Statutory Auditors obtained the necessary information to perform its duties through interviews with the Company's department heads, by participating in the meetings of the Board of Directors (the "Board" or the "BoD"), the Audit and Risk Committee, the Nominating and Remuneration Committee, the Control Committee for Related-Party Transactions, the Manager in charge of the Preparation of Corporate Accounting Documents, the Head of the Internal Audit Function, the Manager of the Oversight Committee and the Independent Auditors PriceWaterhouseCoopers S.p.A. (PWC).

Based on the activities carried out and with respect to the above-mentioned provisions, the Board of Statutory Auditors reports on the following aspects.

- With respect to the supervisory activities concerning the compliance with the law and the bylaws and the compliance with the principles of sound management, during the year, the Board of Statutory Auditors, regularly requested and received information from the Directors about the Company's overall performance and its outlook, the operations performed and the main economic, financial and equity-related transactions carried out in 2016, also through subsidiaries. It also checked their compliance with the law, the bylaws and ensured that they were not openly risky or imprudent, partially in conflict of interests, in conflict with the Shareholders' resolutions, or such to jeopardise the integrity of the Company's assets and its ability to continue as a going concern.

  With respect to the principles of sound management, to the extent of its responsibility, the Board of Statutory Auditors checked that management's decisions complied with the general criteria of economic

rationality. This was obtained through direct observations, the collection of data and information from the Company's department heads, meetings with the Audit and Risk Committee and the Independent Auditors, including to mutually exchange significant data and information.

By regularly participating in the BoD's meetings, the Board of Statutory Auditors confirmed that the management decisions adopted by the Directors comply with the law and the bylaws.

Where necessary, the Board of Statutory Auditors checked that the resolutions were supported by analyses and/or appraisals carried out by independent experts, mainly in respect of the economic and financial fairness of the transactions and their actual compliance with the Company's interest.

During 2016, the Board of Statutory Auditors met 13 (thirteen) times and also participated in:

a) the ordinary Shareholders' meeting of 19 April 2016 called, *inter alia*, to approve the financial statements as of 31 December 2015;
b) all the 13 (thirteen) meetings of the Board of Directors;
c) 7 (seven) meetings of the Nominating and Remuneration Committee (of which 3 with all the Statutory Auditors, 3 with 2 Statutory Auditors and 1 only with the Chairman of the Board of Statutory Auditors);
d) 3 (three) meetings of the Audit and Risk Committee (of which 2 with all the Statutory Auditors and 1 with 2 Statutory Auditors);
e) 3 (three) meetings of the Control Committee for Related-Party Transactions (of which 2 only with the Chairman of the Board of Statutory Auditors and 1 with 2 Statutory Auditors).

- With respect to the adequacy of the organisational structure, the Board of Statutory Auditors confirmed that MZBG has an operational structure based on the following:
    - an organisational chart that clearly identifies functions, duties and responsibilities;
    - decision-making activities by the authorised parties;
    - procedures carried out by personnel with suitable skills to perform the assigned duties;
    - company directives and procedures, updated and actually circulated.

Based, first of all, on the Company's size and complexities, the nature and methods used to pursue the corporate purpose, the Board of Statutory Auditors considered the organisational structure adequate.

With respect to the composition of the organisational structure, the Board of Statutory Auditors makes reference to that set out and commented on by the Company in the “Report on Corporate Governance” in relation to the Board of Directors (Composition, Role, Delegated Bodies, Chairman), the three Committees (Nominating and Remuneration Committee), (Audit and Risk Committee), (Control Committee for Related-Party Transactions) and the Oversight Committee.

The Board of Statutory Auditors expressed its favourable opinion on the adequacy of the Company's organisational structure and its operational structure based on the collection, during the year, of information from the relevant departments, interviews with the competent department heads, the Internal Audit Function and PWC.

In 2016, the Board of Statutory Auditors checked the correct application of the assessment criteria and procedures adopted by the Board to assess the independence of its members. At the same time, it successfully performed the same procedure for its members.
In February 2017, the same procedures confirmed the above results.

- With respect to the supervision over the adequacy and operation of internal controls and the strategic subsidiaries, the Board of Statutory Auditors acknowledged the most significant activities and functions carried out by the internal controls and risk management department during the year.

  In this respect, meetings and discussions were held with the Director M.Mambelli, in charge of internal controls and in accordance with the recommendations set out in articles 7.P.3. a) and 7.C.4 of the Code.

Other meetings were held with the Audit and Risk Committee and the Manager of the Internal Audit Function. The latter prepared periodic reports during the year. In its final report dated 24 February 2017, he reported on the entire year, describing the main business risks and the related estimates.

On the same date, the BoD, with the approval of the Audit and Risk Committee and the Board of Statutory Auditors, approved the "Risk Assessment 2017" document, substantially defining the risk threshold identified as acceptable.

In its 2016 report dated 24 February 2017, the Audit and Risk Committee, while acknowledging the adequacy of the Audit Plan, recommended MZBG to implement the Internal Audit activities in the strategic foreign companies, starting from those operating in America.

With respect to the "Additional variable remuneration of Directors" (MBO) for 2016 and subordinated to the achievement of the performance target equal to the consolidated EBITDA, the Board of Statutory Auditors acknowledged that, after hearing the opinion of the Nominating and Remuneration Committee, approved by the BoD in its meeting of 14 February 2017, Euro 191,469 will be paid in 2018 and 2019 provided that the conditions set out in the 2015-2017 Incentive Plan are met.

The Company has adopted an Organizational and Management Model pursuant to Legislative Decree no. 231 of 8 June 2001, approved by both the Board of Directors and the Shareholders in the ordinary Meeting of 8 May 2015.

This body is appointed with a sole member, represented by B. Stramignoni.

The most recent update, necessary to comply with the introduction of the new offences (*reati presupposto*), was approved by the Board of Directors on 8 March 2016.

In its report of 24 February 2017, the Oversight Committee reported to the Board of Directors stating that the MZBG controls appear adequate to its current structure.

- With respect to the supervision over the adequacy of the accounting/administrative system and the legal auditing, the Board of Statutory Auditors reported the following.

  On today's date, the Independent Auditors PWC issued the reports pursuant to articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010 (Legislative Decree no. 39/2010), confirming that the separate and consolidated financial statements as of 31 December 2016:

  - comply with both the Internal Financial Reporting Standard (IFRS) endorsed by the European Union and the provisions issued in implementation of article 9 of Legislative Decree no. 38 of 28 February 2015.
  - have been prepared clearly and give a true and fair view of the Company's and the Group's financial position and performance.

  Furthermore, according to the Independent Auditors, the Management Report and the information pursuant to article 123-*bis* paragraph 1, letters c), d), f), l), n) and paragraph 2) letters b) and d) TUF, included in the report on corporate governance and ownership structure are consistent with the Company's separate financial statements and the Group's consolidated financial statements.

  The Board of Statutory Auditors checked the financial reporting process, the legal audit of the annual separate and consolidated financial statements pursuant to article 19 of Legislative Decree no. 39/2010. In this respect, it is noted that the Independent Auditors PWC published the "Transparency Report" on its website in accordance with article 18 paragraph 1 of Legislative decree no. 39/2010 which provides information about its composition and operation. Moreover, in its letter dated 20 March 2017, as required by article 19 paragraph 2 of Legislative decree no. 39/2010, PWC confirmed to the Board of Statutory Auditors its independence pursuant to article 17 paragraph 9, letter c) of the abovementioned Decree.

  The above report, which covers any fundamental issues which may have been identified during the legal audit and any weaknesses in the internal controls over financial reporting, does not identify any critical issues.

  During the year, MZBG assigned to PWC engagements other than the audit of separate and consolidated financial statements, the review of the half-year report and checking that the company's

accounts are kept properly and that the accounting entries accurately reflect its operations as analytically presented and quantified in note 25 "Information pursuant to article 149-*duodecies* of the Issuers' Regulation" of the Annual Report as of 31 December 2016.

Finally, the Board of Statutory Auditors assessed the administrative/accounting system, monitored on its reliability in presenting operating results (by obtaining information from the competent department heads, examining the company documents and analysing the results of the work carried out by PWC) and expressed a favourable opinion on its adequacy.

- With respect to the proposals about the separate and consolidated financial statements, their approval and the items falling under its responsibility, the Board of Statutory Auditors confirmed that the separate and consolidated financial statements have been prepared in accordance with the international accounting principles and that the notes thereto and the management report describe the accounting policies applied in accordance with the mentioned international accounting principles.

  For the purposes of the preparation of consolidated financial statements, the management of MZBG, in collaboration with an independent expert, tested for impairment the "financial recoverability of goodwill" in accordance with IAS 36 "Impairment of Assets".
  The successful outcome of the impairment test was expressly approved by the Company's BoD on 24 February 2017, i.e., prior to the approval of the 2016 financial statements.

  Within the limits of its function vis-à-vis accounting, the Board of Statutory Auditors acknowledged that the information provided by the Directors in the explanatory notes to the separate and consolidated financial statements of MZBG as of 31 December 2016 and those included in the "Management Report", are exhaustive and adequate in relation to the financial position and performance and corporate governance.

  The Board of Statutory Auditors acknowledged the declarations of the Company's Chairman and CEO and the Manager in charge of the Preparation of Corporate Accounting Documents included in a specific report on MZBG's accounting documents about the adequacy and effective application of the administrative/accounting procedures in 2016 for the preparation of the separate and consolidated financial statements.

- With respect to the practical application of Corporate Governance Rules, the Board of Statutory Auditors confirmed that the Company complies with the principles and recommendations set out in the Code prepared, on the initiative of Borsa Italiana, by the Corporate Governance Committee for listed companies.

  MZBG's Board of Directors is currently composed of nine members, of whom three are non executive. They are all qualified as independent by the management body.

  The Board of Directors set up the following Board Committees exclusively comprised of Independent Directors: the "Nominating and Remuneration Committee", the "Audit and Risk Committee" and the "Committee for Related-Party Transactions".
  The Board of Directors applied the Corporate Governance Code for listed companies approved by the Corporate Governance Committee, created and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria in July 2015. For additional information, reference should be made to the "Report on Corporate Governance" prepared and approved by the Directors pursuant to article 123-*bis* TUF.
  With resolution of the Board of Directors dated 12 July 2016, in accordance with the amended European Implementing Regulations, MZBG updated and approved the "Market Abuse Regulation" (MAR) procedures, implementing the relevant technical and documental requirements.
  The Company adopted the criteria of the Code concerning the "independent" qualification of the Directors.
  Based on the information available to the Company and that provided by the Directors, the Board of Directors checked that the independence requirements were met. These activities were also carried out

by the Board of Statutory Auditors which performed the activities under its responsibility, checking compliance with the requirements governing the composition of the Board as a whole.

The Board of Statutory Auditors also checked its independence pursuant to article 148 paragraph 3 TUF.

The Board of Statutory Auditors expressed a favourable opinion on the Company's corporate governance system.

In the Shareholders' ordinary meeting of 19 April 2016, pursuant to article 2389 paragraph 3 of the Italian Civil Code, the Board of Statutory Auditors expressed a favourable opinion to the Board of Directors on the remuneration paid in 2016 to a director entrusted with specific duties.

- The Company adopted the procedure governing Related Party Transactions.

  In this respect, the Board of Statutory Auditors checked that the procedures necessary to ensure that related party transactions or intragroup transactions take place on reasonable terms and in the Company's interest were in place.

  The information about these transactions, mainly of a commercial and financial nature, carried out in 2016 by MZBG, is included in the explanatory note to the consolidated financial statements as of 31 December 2016. These transactions were carried out on an arm's length basis.

  The Board of Statutory Auditors did not identify, nor did it receive from the Board of Directors, the Independent Auditors or the Audit and Risk Committee, information about the existence of atypical and/or unusual transactions carried out with third parties, related parties or group companies.

- During the year, no claims pursuant to article 2408 of the Italian Civil Code were filed with the Board of Statutory Auditors.

  Based on the supervisory activities carried out and the information received, the Board of Statutory Auditors confirmed that there were no omissions, irregularities or significant facts to be reported to the supervisory bodies or disclosed in this report.

* * * * *

Dear Shareholders,

based on the above, the Board of Statutory Auditors, to the extent of its responsibility, is in favour of the approval of the financial statements of Massimo Zanetti Beverage Group S.p.A. as of 31 December 2016 and of the proposed allocation of the profit for the year as well as the dividend distribution included in the Management Report.

Villorba (TV), 20 March 2017

Board of Statutory Auditors

(Pier Paolo Pascucci – Chairman)

(Ermanno Era – Statutory Auditor)

(Maria Augusta Scagliarini – Statutory Auditor)