ANNUAL REPORT
2017

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

MASSIMO ZANETTI
BEVERAGE GROUP

Table of Contents

PARENT INFORMATION....5
CORPORATE AND SUPERVISORY BODIES OF THE PARENT....6
MANAGEMENT REPORT....7
INTRODUCTION....7
STRUCTURE AND OPERATIONS OF THE GROUP....7
RECENT DEVELOPMENTS FOR THE YEAR ENDED DECEMBER 31, 2017....8
RESULTS OF OPERATIONS....9
INTRODUCTION....9
RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016....9
RECLASSIFIED STATEMENT OF FINANCIAL POSITION....13
RECLASSIFIED CASH FLOW STATEMENT....14
NET FINANCIAL INDEBTEDNESS....16
CAPITAL EXPENDITURE....16
SUBSEQUENT EVENTS....17
BUSINESS OUTLOOK....17
"NON-GAAP" ALTERNATIVE PERFORMANCE INDICATORS....18
RELATED PARTY TRANSACTIONS....18
SHARE PRICE TREND....18
ENVIRONMENT AND PERSONNEL....19
CORPORATE GOVERNANCE....20
RISK MANAGEMENT....22
OTHER INFORMATION....23
RECLASSIFIED INCOME STATEMENT AND RECLASSIFIED STATEMENT OF FINANCIAL POSITION OF THE PARENT....24
NET FINANCIAL INDEBTEDNESS....25
RECONCILIATION OF THE PARENT AND GROUP NET PROFIT AND SHAREHOLDERS' EQUITY....26
PROPOSED RESOLUTION CONCERNING NET PROFIT FOR THE YEAR....27
CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017....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....38
2.5. Recently-Issued Accounting Standards....46
2.6. Significant Non-Recurring Events and Transactions....50
3 Management of Financial Risks....50
4 Use of Estimates and Assumptions....56
5 Business Combinations....58
6 Operating Segments....59
7 Intangible Assets....60
8 Property, Plant and Equipment....63
9 Investment Properties....64
10 Investments in joint ventures and associates....64
11 Current and Non-Current Trade Receivables....65
12 Deferred Tax Assets and Liabilities....66
13 Other Current and Non-Current Assets....66
14 Inventories....67
15 Cash and cash equivalents....67
16 Equity....67
17 Current and Non-current borrowings....69
18 Employee Benefits....73
19 Other Non-Current Provisions....74
20 Other Current and Non-Current Liabilities....75

21 Revenue ... *75*
22 Other Income ... *76*
23 Purchases of raw, ancillary, and consumable materials and goods ... *76*
24 Purchases of Services, Leases and Rentals ... *76*
25 Personnel Costs ... *77*
26 Other Operating Costs ... *77*
27 Amortization, Depreciation and Impairment ... *78*
28 Finance Income and Costs ... *78*
29 Income Tax Expense ... *78*
30 Earnings per share ... *79*
31 Commitments ... *79*
32 Related Party Transactions ... *80*
33 Subsequent events ... *83*
Appendix 1 – List of Companies included in the Consolidated Financial Statements: ... *84*
CONSOLIDATED INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 86
CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 87
CONSOLIDATED STATEMENT OF CASH FLOW IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 JULY 27, 2006 ... 88
STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 AS AMENDED ... 89
AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF JANUARY 27, 2010 ... 90
SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2017 ... 97
INCOME STATEMENT ... 97
STATEMENT OF COMPREHENSIVE INCOME ... 98
STATEMENT OF FINANCIAL POSITION ... 99
STATEMENT OF CASH FLOWS ... 100
STATEMENT OF CHANGES IN EQUITY ... 101
NOTES TO THE SEPARATE FINANCIAL STATEMENTS ... 102
1 General information ... *102*
2 Accounting policies ... *102*
2.1. Basis of Preparation ... *102*
2.2. Accounting Policies ... *103*
2.3. Recently-Issued Accounting Standards ... *108*
2.4. Significant Non-Recurring Events and Transactions ... *111*
3 Management of Financial Risks ... *111*
4 Use of Estimates and Assumptions ... *114*
5 Intangible Assets ... *115*
6 Property, Plant and Equipment ... *115*
7 Current and Non-Current Financial Receivables ... *116*
8 Investments in Subsidiaries ... *116*
9 Deferred Tax Assets and Liabilities ... *117*
10 Other Current Assets ... *118*
11 Cash and cash equivalents ... *118*
12 Equity ... *118*
13 Current and Non-current borrowings ... *119*
14 Employee Benefits ... *121*
15 Other Current and Non-Current Liabilities ... *123*
16 Revenue ... *124*
17 Purchases of Services, Leases and Rentals ... *124*
18 Personnel Costs ... *124*
19 Other Operating Costs ... *125*
20 Amortization, Depreciation and Impairment ... *125*
21 Finance income and costs ... *125*
22 Income Tax Expense ... *126*
23 Related Party Transactions ... *126*
24 Subsequent events ... *130*
25 Information pursuant to article 149 duodecies of the Issuers' Regulation ... *130*
INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 131
STATEMENT OF FINANCIAL POSITION IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006 ... 132

STATEMENT OF CASH FLOW IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 JULY 27, 2006 133

STATEMENT ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 AS AMENDED..134

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF JANUARY 27, 2010. 135

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING 140

Parent Information

Massimo Zanetti Beverage Group S.p.A.

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

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

Tax Code/Business Register/VAT No. 02120510371C

Corporate and supervisory bodies of the Parent

Board of Directors

Massimo Zanetti
Chairman and Chief Executive Officer

Matteo Zanetti (**)
Director

Laura Zanetti (**)
Director

Massimo Mambelli
Director

Lawrence L. Quier
Director

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

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

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

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

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

Board of Statutory Auditors

Fabio Facchini
Chairman

Simona Gnudi
Standing Auditor

Franco Squizzato
Standing Auditor

Cristina Mirri
Alternate Auditor

Alberto Piombo
Alternate Auditor

Manager in charge of the preparation of corporate accounting documents

Leonardo Rossi

Independent Auditors

PricewaterhouseCoopers S.p.A.

DISCLAIMER

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

MANAGEMENT REPORT

Introduction

With reference to the year ended December 31, 2017, the financial information included in this report and the comments reported therein are intended to provide an overview of the financial position and results of operations, the relevant changes that occurred during the year, and the significant events that have occurred affecting the results of the year.

Structure and Operations of the Group

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

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

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

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

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

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

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

Recent developments for the year ended December 31, 2017

On April 11, 2017, the Ordinary Shareholders' Meeting of Massimo Zanetti Beverage Group S.p.A.:

- approved the 2016 financial statements and the proposed distribution of a unit dividend of Euro 0.15 per share, for a total of Euro 5,145 thousand;
- appointed the members and the Chairman of the new Board of Directors, who will be in office up to the date of the Annual General Meeting for the approval of the financial statements as at December 31, 2019.
- appointed the Standing and Alternate members and the Chairman of the Board of Statutory Auditors, who will be in office up to the date of the Annual General Meeting called to approve the financial statements as at December 31, 2019.

Within the scope of the ordinary fund raising activities, the Group entered into:

- a medium-to-long term loan agreement with Banco BPM in April 2017 for an overall amount of Euro 10,000 thousand reaching maturity in 2022;
- a medium-to-long term loan agreement with UBI Banca in May 2017 for an overall amount of Euro 15,000 thousand reaching maturity in 2022;
- a medium-to-long term loan agreement with Wells Fargo Bank in December for an overall amount of USD 30,000 thousand (Euro 25,015 thousand at December 31, 2017), reaching maturity in 2022. At the same time, it repaid early a loan disbursed by Branch Banking and Trust Company in 2015 amounting to Euro 26,163 thousand.

In order to reduce the Group's exposure to interest rate fluctuations, certain Interest Rate Swap agreements on existing loans were entered into in the six months ended June 30, 2017. For additional details, reference should be made to note 17 *"Current and non-current borrowings"*.

Legislative Decree no. 254 of December 30, 2016 introduced in Italy, Directive 2014/95/EU of the European Parliament (so called *"Barnier directive*") regarding non-financial disclosure reporting by certain large enterprises and groups. In particular, it specifies that as from the year 2017, all listed companies must prepare a non-financial disclosure report to be annexed to the Management Report or to be published separately.
To ensure proper compliance with this reporting requirement, the Group launched a project in May 2017 for the collection, processing and analysis of such information, with support from external consultants, which was completed in December. The results of this project can be found in the Non-financial disclosure document pursuant to Legislative decree no. 254/2016 approved by the Board of Directors on February 28, 2018.

In September, the subsidiaries Nutricafes SA and Segafredo Zanetti Portugal SA merged, forming MZB Iberia SA. The merger will improve the Group's presence in Portugal and strengthen the growth of the Spanish market, while enabling the Group to benefit from important synergies in the next few years.

The Group's reorganisation in the Danish market, which began in the third quarter of the year, culminated with the merger of Segafredo Zanetti Danmark Aps. into Meira Oy on December 31, 2017. The merger will enable the Group to continue increasing the efficiency of its business activities in the country, which will be managed through an independent distributor.

The reorganisation of the activities of the Italian subsidiary, Segrafredo Zanetti S.p.A., began in October and will be completed and fully operational by 2018. This reorganisation, which is aimed at increasing the efficiency of the sales force in the country and improving logistic-distribution activities, will enable the Group to achieve major benefits in the next few years.

Results of operations

Introduction

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

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

Results of operations for the years ended December 31, 2017 and 2016

The following table sets forth the reclassified consolidated income statement for the years ended December 31, 2017 and 2016.

	For the year ended December 31,				**Change**	
(in thousands of Euro)	**2017**	**(*)**	**2016**	**(*)**	**2017-2016**	
Revenue	956,065	100.0%	917,475	100.0%	38,590	4.2%
Raw, ancillary, and consumable materials and goods	(558,693)	-58.4%	(531,965)	-58.0%	(26,728)	5.0%
Gross Profit [1]	**397,372**	**41.6%**	**385,510**	**42.0%**	**11,862**	**3.1%**
Purchases of services, leases and rentals	(183,140)	-19.2%	(175,054)	-19.1%	(8,086)	4.6%
Personnel costs	(145,640)	-15.2%	(138,749)	-15.1%	(6,891)	5.0%
Other operating costs, net [2]	1,849	0.2%	712	0.1%	1,137	> 100%
Impairment [3]	(1,767)	-0.2%	(4,112)	-0.4%	2,345	-57.0%
EBITDA [1]	**68,674**	**7.2%**	**68,307**	**7.4%**	**367**	0.5%
Non-recurring charges	6,292	0.7%	-	0.0%	6,292	100.0%
Adjusted EBITDA [1]	**74,966**	**7.8%**	**68,307**	**7.4%**	**6,659**	**9.7%**
Depreciation and amortization [4]	(36,927)	-3.9%	(33,537)	-3.7%	(3,390)	10.1%
Operating profit	**31,747**	**3.3%**	**34,770**	**3.8%**	**(3,023)**	**-8.7%**
Net finance expense [5]	(7,996)	-0.8%	(7,574)	-0.8%	(422)	5.6%
Share of losses of companies accounted for using the equity method	(787)	-0.1%	(110)	0.0%	(677)	> 100%
Profit before tax	**22,964**	**2.4%**	**27,086**	**3.0%**	**(4,122)**	**-15.2%**
Income tax expense	(4,854)	-0.5%	(10,322)	-1.1%	5,468	-53.0%
Profit for the period	**18,110**	**1.9%**	**16,764**	**1.8%**	**1,346**	**8.0%**

(*) Percentage of revenue

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

Revenue

Revenue amounted to Euro 956,065 thousand for the year ended December 31, 2017, an increase of Euro 38,590 thousand (+4.2%) compared to the year ended December 31, 2016. This increase is mainly due to the combined effect of:

- the increase in the sales price of roasted coffee and other (+5.8%);
- the contribution of Nutricafès (acquired in September 2016) to results for the first eight months of 2017 (+2.7%);
- the organic decrease in roasted coffee sales volumes (-3.2%); and
- foreign exchange rate impact, mainly due to the fluctuations of the US dollar (-1.1%).

Excluding the contribution to results of Nutricafès and the effect of the foreign exchange rate fluctuations, the increase in revenue is mainly due to the rise in the “Sale of roasted coffee” (Euro 22,317 thousand or +2.4%). This increase is mainly due to the combined effect of:

- the increase in the sales prices of roasted coffee, which resulted in an increase in revenue of 5.6%, due to the rise in the purchase price of green coffee in the last few months of 2016, as well as the different price mix in relation to channels in 2017 and 2016;
- the decrease in the volumes of roasted coffee sold (-3.2% on 2016). In 2017, 126.5 thousand tonnes of roasted coffee was sold (131.2 thousand in 2016), excluding the contribution of Nutricafes to the results for the first eight months of 2017 (2.9 thousand tonnes). At group level, the decrease mainly affected the *Private Label* channel and, to a lesser extent, the *Mass Market* channel. Conversely, the *Foodservice* channel performed positively. With respect to the geographical areas, the decrease affected Southern Europe (1.5 thousand tonnes) and the Americas (4.4 thousand tonnes) and was driven by the *Private Label* and *Mass Market* channels in both areas. The decrease in the *Private Label* channel in the Americas reflects the loss of a major customer in the third quarter of 2016. Conversely, Northern Europe (0.7 thousand tonnes) increased, mainly in the *Mass Market* channel, while the Asia-Pacific and Cafés area (0.5 thousand tonnes) grew in the *Mass Market* and *Private Label* channels.

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2017 and 2016, by sales channel.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2017**	**(*)**	**2016**	**(*)**	**2017-2016**	
Mass Market	357,467	37.4%	343,857	37.5%	13,610	4.0%
Foodservice	211,850	22.2%	196,023	21.4%	15,827	8.1%
Private Label	325,197	34.0%	320,562	34.9%	4,635	1.4%
Other	61,551	6.4%	57,033	6.2%	4,518	7.9%
Total	**956,065**	**100.0%**	**917,475**	**100.0%**	**38,590**	**4.2%**

(*) Percentage of revenue.

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2017 and 2016, by geographical area.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2017**	**(*)**	**2016**	**(*)**	**2017-2016**	
Americas	447,407	46.8%	450,920	49.1%	(3,513)	-0.8%
Northern Europe	183,785	19.2%	171,724	18.7%	12,061	7.0%
Southern Europe	247,163	25.9%	224,668	24.5%	22,495	10.0%
Asia-Pacific and Cafés (**)	77,710	8.1%	70,163	7.6%	7,547	10.8%
Total	**956,065**	**100.0%**	**917,475**	**100.0%**	**38,590**	**4.2%**

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

Seasonality

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

Gross profit

Gross profit amounted to Euro 397,372 thousand in 2017, an increase of Euro 11,862 thousand (+3.1%) on 2016. The increase is partly due to *i)* the contribution from Nutricafés, a company acquired in September 2016 (+3.3%) and *ii)* the impact of exchange rates, mainly related to the US dollar fluctuations (- 0.8%).

On a constant currency basis and consistent scope of consolidation, *Gross Profit* increased by Euro 2,364 thousand (+0.6%). The increase is mainly due to the positive performance of the other products (+0.6%), while the impact of the above-mentioned decrease in the volumes of roasted coffee (-3.1%) was entirely offset by the trends of sales prices of roasted coffee and the purchase price of green coffee (+3.1%) attributable to the different sales mix in 2017 and 2016.

EBITDA and Adjusted EBITDA

The following table provides a reconciliation between EBITDA and the profit for the years ended December 31, 2017 and 2016.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2017**	**(*)**	**2016**	**(*)**	**2017-2016**	
Profit for the year	18,110	1.9%	16,764	1.8%	1,346	8.0%
Income tax expense	4,854	0.5%	10,322	1.1%	(5,468)	-53.0%
Finance costs	8,295	0.9%	7,841	0.9%	454	5.8%
Finance income	(299)	0.0%	(267)	0.0%	(32)	12.0%
Share of losses of companies accounted for using the equity method	787	0.1%	110	0.0%	677	> 100%
Depreciation and amortization(1)	36,927	3.8%	33,537	3.7%	3,390	10.1%
EBITDA(2)	**68,674**	**7.2%**	**68,307**	**7.5%**	**367**	**0.5%**

(*) Percentage of revenue
(1) Includes depreciation of property, plant and equipment and investment properties and amortization of intangible assets
(2) For additional information, refer to the "Non-GAAP" alternative performance indicators section.

The following table provides a reconciliation between EBITDA and Adjusted EBITDA for the years ended December 31, 2017 and 2016:

	For the year ended December 31,				Change	
(in thousands of Euro)	**2017**	**(*)**	**2016**	**(*)**	**2017-2016**	
EBITDA(1)	68,674	7.2%	68,307	7.4%	367	0.5%
Non-recurring charges	6,292	0.7%	-	0.0%	6,292	100.0%
Adjusted EBITDA(1)	**74,966**	**7.9%**	**68,307**	**7.4%**	**6,659**	**9.7%**

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

Adjusted EBITDA amounted to Euro 74,966 thousand in 2017, up by Euro 6,659 thousand (+9.7%) on 2016. The result is mainly due to the aforementioned factors impacting *Gross Profit*, and the combined effect of:

- Nutricafés' contribution to the results for the first eight months of 2017 (Euro 5,381 thousand);

- the increase in net operating costs (Euro 525 thousand) which, in turn, is mainly due to the combined effect of *i)* the rise in the costs incurred to develop country and global brand awareness activities, *ii)* the rise in maintenance costs, *iii)* the rise in personnel costs and *iv)* the decrease in impairment.

Operating profit

Operating profit amounted to Euro 31,747 thousand for the year ended December 31, 2017, a decrease of Euro 3,023 thousand (-8.7%) compared to the year ended December 31, 2016. In addition to the Adjusted EBITDA, referred to earlier, the decrease is mainly attributable to *i)* the Euro 6,292 thousand non-recurring charges recognised in 2017 (of which mainly Euro 2,420 thousand refers to the reorganisation in Portugal and Euro 3,772 thousand to the costs incurred for the reorganisation in Italy) and *ii)* the Euro 3,390 thousand increase in “Amortisation” (+10.1%), essentially due to the Euro 2,794 thousand contribution by Nutricafès for the first eight months of 2017.

Profit for the year

The **profit for the year** amounted to Euro 18,110 thousand in 2017, an increase of Euro 1,346 thousand (+8.0%) compared to 2016. In addition to as previously described for Operating Profit, the increase is also due to the combined effect of:

- the increase in net finance costs of Euro 422 thousand (+5.6%), mainly due to lower exchange rate gains and lower fair value gains on derivative financial instruments only partially offset by the reduction in interest expense (Euro 1,313 thousand);
- the increase in the shares of losses of companies accounted for using the equity method, amounting to Euro 677 thousand;
- the decrease in income taxes of Euro 5,468 thousand (-53%), mainly due to the lower taxable income generated by the Group in 2017 compared to 2016 and the tax changes introduced by the US government.

Reclassified statement of financial position

The following table shows the reclassified statement of financial position of the Group as at December 31, 2017 and 2016:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016 ***
Investments:		
Intangible assets	183,231	190,943
Property, plant and equipment and investment properties	217,717	224,492
Investments in joint ventures and associates	9,616	10,943
Non-current trade receivables	3,076	4,129
Deferred tax assets and other non-current assets	23,913	26,315
Non-current assets (A)	**437,553**	**456,822**
Net working capital (B)(1)	**92,199**	**119,638**
Employee benefits	(8,987)	(9,268)
Other non-current provisions	(2,986)	(3,949)
Deferred tax liabilities and other non-current liabilities(2)	(25,942)	(32,414)
Non-current liabilities (C)	**(37,915)**	**(45,631)**
Net invested capital (A+B+C)	**491,837**	**530,829**
Sources:		
Equity	300,882	309,944
Net Financial Indebtedness	190,955	220,885
Sources of financing	**491,837**	**530,829**

(*) Restated figures (See Note 2.1)
Reconciliation between the reclassified consolidated statement of financial position and the consolidated statement of financial position:
(1) For additional information, refer to the "Non-GAAP" alternative performance indicators section.
(2) Includes deferred tax liabilities and other non-current liabilities

The following table shows the composition of the Group's Net Working Capital as at December 31, 2017 and 2016:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016 ***
Inventories	127,997	132,858
Trade receivables	123,405	120,074
Income tax assets	1,975	1,611
Other current assets (1)	15,868	18,519
Trade payables	(139,329)	(122,209)
Income tax liabilities	(1,433)	(644)
Other current liabilities	(36,284)	(30,571)
Net working capital(2)	**92,199**	**119,638**

(*) Restated figures (See Note 2.1)
(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, 2017 and 2016.

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Adjusted EBITDA [1]	**74,966**	**68,307**
Non-recurring items paid	(2,758)	-
Changes in Net Working Capital	10,527	28,414
Net recurring investments[2]	(34,911)	(29,483)
Income tax paid	(6,029)	(7,753)
Other operating items[3]	1,674	4,270
Free cash flow	**43,469**	**63,755**
Net non-recurring investments[4]	(3,360)	(52,055)
Investments (Disposals) in financial receivables[5]	1,718	(3,371)
Interest paid	(6,477)	(6,736)
Net cash generated from financing activities	11,682	17,866
Net cash from discontinuing operations	-	-
Exchange gains/(losses) on cash and cash equivalents	(2,605)	134
Net increase in cash and cash equivalents	**44,427**	**19,593**
Cash and cash equivalents at the beginning of the period	45,167	25,574
Cash and cash equivalents at the end of the period	**89,594**	**45,167**

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

Free Cash Flow amounted to a positive Euro 43,469 thousand in 2017, a decrease of Euro 20,286 thousand compared to 2016. The decrease is mainly due to the Euro 10,527 thousand fall in net working capital.

The following table shows the composition of the changes in net working capital for the years ended December 31, 2017 and 2016.

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016 ***
Changes in inventories	(1,811)	6,913
Changes in trade receivables	(8,699)	4,620
Changes in trade payables	23,011	33,640
Changes in other assets/liabilities	(1,351)	(15,727)
Payments of employee benefits	(623)	(1,032)
Changes in net working capital	**10,527**	**28,414**

(*) Restated figures (See Note 2.1)

The **changes in Net Working Capital**, positive for Euro 10,527 thousand in 2017, represent a decrease of Euro 17,887 thousand compared to 2016. The decrease is mainly due to *i)* the change in trade receivables, negative by Euro 13,319 thousand *ii)* the change in trade payables, negative by Euro 10,629 thousand, *iii)* the change in inventories, negative by Euro 8,724 thousand,, which was only partially offset by the change in other assets/liabilities, positive by Euro 14,376 thousand.

Net recurring investments amounted to Euro 34,911 thousand for the year ended December 2017. They show an increase of Euro 5,428 thousand compared to the year ended December 31, 2016. The increase is mainly due to *i)* the investments made by Nutricafes and *ii)* the trade investments to support the business development in Asia.

Net non-recurring investments amounted to Euro 3,360 thousand and Euro 52,055 thousand for the year ended December 31, 2017 and 2016, respectively.

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

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.

Net cash generated from financing activities decreased from Euro 17,866 thousand for the year ended December 31, 2016 to Euro 11,682 thousand for year ended December 31, 2017.

The cash flow generated in 2017 was mainly due to *i)* the issue of new long-term loans, which, net of repayments in the period, amounted to Euro 15,176 thousand, *ii)* the increase in short-term loans (Euro 1,811 thousand) and *iii)* the dividend payment of Euro 5,305 thousand.

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. 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 of Euro 3,211 thousand.

Net Financial Indebtedness

The following table shows the breakdown of net financial indebtedness of the Group at December 31, 2017 and at December 31, 2016, determined in accordance with the CONSOB Communication dated July 28, 2006, and in compliance with the ESMA Recommendation 2013/319:

(in thousands of Euro)		As at December 31, 2017	As at December 31, 2016
A	Cash and cash equivalents	(803)	(931)
B	Cash at bank	(88,791)	(44,236)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(89,594)**	**(45,167)**
E	**Current financial receivables**	**(2,327)**	**(3,495)**
F	Current loans	53,014	50,870
G	Current portion of non-current loans	24,259	24,952
H	Other current financial payables	1,459	1,608
I	**Current indebtedness (F+G+H)**	**78,731**	**77,430**
J	**Net current indebtedness (I+E+D)**	**(13,190)**	**28,768**
K	Non-current loans	201,453	189,393
L	Issued bonds	-	-
M	Other non-current financial payables	2,692	2,724
N	**Non-current indebtedness (K+L+M)**	**204,145**	**192,117**
O	**Net financial indebtedness (J+N)**	**190,955**	**220,885**

Net Financial Indebtedness amounted to Euro 190,955 thousand at December 31, 2017, a decrease of Euro 29,930 thousand compared to December 31, 2016.
The negative impact of the *Free Cash Flow* (Euro 43,469 thousand) on 2017 was only partly offset by:

- net non-recurring investments of Euro 3,360 thousand in 2017;
- interest paid of Euro 6,477 thousand in 2017;
- dividends paid amounting to Euro 5,305 thousand;
- the Euro/USD foreign currency exchange rate impact and other non-cash items.

Capital expenditure

The following table sets forth capital expenditure in business combinations, property, plant and equipment and intangible assets for the years ended December 31, 2017 and 2016.

	For the year ended December 31,			
(in thousands of Euro)	2017		2016	
	Capital expenditure	Cash-out	Capital expenditure	Cash-out
Business combinations, including those under common control	2,659	2,319	43,645	41,916
Investments in associates	840	840	10,139	10,139
Intangible assets	1,222	1,222	1,698	1,698
Property, plant and equipment	34,694	34,694	30,118	29,106
Total non-current assets	**39,415**	**39,075**	**85,600**	**82,859**

Business combinations, including those under common control
Capital expenditure amounts to Euro 2,659 thousand in 2017 and mainly refers to the purchase of Le.ma and Tru Blue and the acquisition of 67% of PT Caswell Indonesia. In 2016, it amounted to Euro 43,645 thousand and substantially related to the purchase of Nutricafés S.A. and Segafredo Zanetti Worldwide Italia S.p.A..

Investments in associates

They amount to Euro 840 thousand and refer to the subscription of the capital increase of Virtus Pallacanestro Bologna S.S.D. a R.L., based in Bologna, for an overall share of 40%. They amounted to Euro 10,139 thousand at December 31, 2016 and referred to the acquisition of a minority stake in Club Coffee LP.

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

They amounted to Euro 1,698 thousand at December 31, 2016 and referred to software (upgrading of the IT infrastructure in Northern and Southern Europe), and other assets and trademarks and licences.

Property, plant and equipment
Capital expenditure in property, plant and equipment at December 31, 2017 amounts to Euro 34,694 thousand and mainly relates to bar equipment (Euro 19,007 thousand), industrial and commercial equipment and other assets (Euro 6,040 thousand) and plant and machinery (Euro 4,984 thousand).
Capital expenditure in property, plant and equipment in 2016 amounted to Euro 30,118 thousand and related principally to bar equipment (Euro 15,071 thousand), assets under construction (Euro 6,064 thousand) and industrial and commercial equipment and other assets (Euro 4,576 thousand).

Subsequent events

Please refer to Note 33 – *"Subsequent Events* "in the notes to the consolidated financial statements at December 31, 2017.

Business outlook

In view of the results achieved in 2017 and considering current market developments, management expectations relating to the Group's performance for 2018 are as follows:

- an increase in revenues of approximately 2.0% - 4.0% as a consequence of *i)* the improvement in the product and channel mix, which is one of the Group's strategic objectives, *ii)* the growth in volumes in line with market trends;
- an increase in adjusted EBITDA of approximately 5.0% - 8.0%, mainly driven by the positive impact on profits from the above channel/product mix and a substantial stability of the Group's ability to absorb its fixed costs; and
- a reduction in net debt to below Euro 180 million through the generation of cash flows from operating activities.

"Non-GAAP" alternative performance indicators

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

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

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

Related party transactions

For details regarding related party transactions in 2017, please refer to Note 32 *"Related Party Transactions*" of the notes to the consolidated financial statements at December 31, 2017.

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.

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, 2017, issued and fully paid share capital of the Parent amounted to Euro 34,300 thousand and comprised 34,300,000 ordinary shares without nominal value. At December 31, 2017, 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 have been issued.

On the basis of communications provided pursuant to article 120 of the Consolidated Law on Finance and other information available to the Company, at December 31, 2017, the significant equity investments in the share capital of the Parent are as follows: MZ Industries S.A. 68.047%.

Environment and personnel

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

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

At December 31, 2017, the Group's workforce amounted to 3,305 with an increase of 39 compared to December 31, 2016. The following table shows the evolution of the number of employees employed by the Group as at December 31, 2017 and 2016, broken down by main categories.

	Average number of employees during the year		**Number of employees as at December 31,**	
(no.)	**2017**	**2016**	**2017**	**2016**
Executives	115	120	112	118
Managers and white collar staff	1,859	1,759	1,893	1,825
Blue-collar workers	1,312	1,290	1,300	1,323
Total	**3,286**	**3,169**	**3,305**	**3,266**

The following table shows the breakdown by major geographical area of the Group's employees at December 31, 2017 and 2016.

	As at December 31,	
(no.)	**2017**	**2016**
Americas	823	884
Northern Europe	549	532
Southern Europe	903	902
Asia-Pacific and Cafés	1,030	948
Total	**3,305**	**3,266**

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

At December 31, 2017, there have not been, nor are there in progress, checks or assessments by the competent bodies regarding staff and safety at work relating to the group companies.

Corporate governance

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

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

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

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

The Board of Directors in office at the date of this Report is comprised of 9 officers, of which three are non-executive and three independent, nominated at the shareholders' meeting of April 11, 2017. The officers will remain in office for three years, until the shareholders' meeting for the approval of the 2019 financial statements.

Nominating and Remuneration Committee

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

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

In support of the internal control and risk management system of the company, its Board of Directors appointed as responsible of the internal audit an external party to satisfy the need to draw on the expertise and experience of an absolutely independent party in order to implement internal control procedures.

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

Board of Statutory Auditors
The Board of Statutory Auditors has - inter alia - the task of monitoring: *i)* compliance with the law and by-laws and observance of the principles of proper business administration; *ii)* the adequacy and effectiveness of the company's organizational structure, internal control and risk management system, as well as the administrative and accounting system, and also the latter's reliability as a means of

accurately reporting business operations; *iii)* any procedures for the actual implementation of the corporate governance rules provided for in the Corporate Governance Code; *iv)* the adequacy of the company's instructions to subsidiaries with regard to disclosures prescribed by law.
The current Board of Statutory Auditors was appointed unanimously by the Shareholders' Meeting on April 11, 2017. The officers will remain in office for three years, until the Shareholders' Meeting for the approval of the 2019 financial statements.

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

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

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

Corporate governance report
The Company prepared a Report on corporate governance and ownership structure that describes the corporate governance system adopted as well as information on the ownership structure and the internal control and risk management system. The Report - which covers 2017 - can be consulted, in full version, on the Company's website www.mzb-group.com.

Risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

Other information

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

Treasury shares
The Company does not possess nor did it possess treasury shares as at December 31, 2017, not even through a third party or trust company, and therefore, has not pursued purchase operations of such shares during the period.

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

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

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

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

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

Reclassified income statement of the Parent for the years ended December 31, 2017 and 2016

The following table sets forth the reclassified income statement for the years ended December 31, 2017 and 2016.

	For the year ended December 31,				**Change**	
(in thousands of Euro)	**2017**	**(*)**	**2016**	**(*)**	**2017-2016**	
Revenue	8,143	100.0%	6,607	100.0%	1,536	23.3%
Raw, ancillary, and consumable materials and goods	(54)	-0.7%	(49)	-0.7%	(5)	9.7%
Purchases of services, leases and rentals	(2,094)	-25.7%	(4,503)	-68.2%	2,409	-53.5%
Personnel costs	(5,453)	-67.0%	(5,368)	-81.2%	(85)	1.6%
Other operating costs, net[(1)]	(157)	-1.9%	20	0.3%	(178)	< -100%
EBITDA[(2)]	**386**	**4.7%**	**(3,292)**	**-49.8%**	**3,678**	**< -100%**
Amortization and depreciation	(708)	-8.7%	(637)	-9.6%	(71)	11.1%
Operating profit	**(322)**	**-4.0%**	**(3,929)**	**-59.5%**	**3,607**	**-91.8%**
Net finance income[(3)]	5,901	72.5%	11,216	169.8%	(5,315)	-47.4%
Profit before tax	**5,579**	**68.5%**	**7,287**	**110.3%**	**(1,708)**	**-23.4%**
Income tax expense	1,142	14.0%	922	14.0%	220	23.9%
Profit for the year	**6,721**	**82.5%**	**8,209**	**124.2%**	**(1,488)**	**-18.1%**

Reconciliation between the reclassified income statement and the income statement:

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

Reclassified statement of financial position of the Parent as at December 31, 2017

The following table shows the reclassified statement of financial position of the Parent as at December 31, 2017 and 2016.

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Investments:		
Intangible assets	682	478
Property, plant and equipment	13,526	13,853
Investments in subsidiaries	259,370	248,175
Non-current financial receivables	41,524	56,448
Deferred tax assets	3,923	3,357
Non-current assets	**319,025**	**322,311**
Net working capital[(1)]	**(2,948)**	**(3,244)**
Employee benefits	(301)	(261)
Deferred tax liabilities and other non-current liabilities[(2)]	(1,146)	(1,174)
Non-current liabilities	**(1,447)**	**(1,435)**
Net invested capital	**314,630**	**317,633**
Sources:		
Equity	158,130	156,566
Net Financial Indebtedness	156,500	161,067
Sources of financing	**314,630**	**317,633**

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

Net Financial Indebtedness

The following table sets forth a breakdown of Net Financial Indebtedness of the Parent at December 31, 2017 and 2016, determined in accordance with CONSOB communication dated July 28, 2006 and in compliance with the Recommendation ESMA/2013/319:

		As at December 31,	
	(in thousands of Euro)	**2017**	**2016**
A	Cash and cash equivalents	(6)	(3)
B	Cash at bank	(32,322)	(18,693)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(32,328)**	**(18,696)**
E	**Current financial receivables**	**(7,477)**	**(6,023)**
F	Current loans	5,996	5,999
G	Current portion of non-current loans	16,316	14,460
H	Other current financial payables	5,777	9,484
I	**Current indebtedness (F+G+H)**	**28,090**	**29,943**
J	**Net current indebtedness (I+E+D)**	**(11,715)**	**5,224**
K	Non-current loans	167,436	154,971
L	Issued bonds	-	-
M	Other non-current financial payables	779	873
N	**Non-current indebtedness (K+L+M)**	**168,215**	**155,844**
O	**Net financial indebtedness (J+N)**	**156,500**	**161,068**
	of which due to third parties	*158,294*	*157,607*
	of which due to related parties	*(1,794)*	*3,461*

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

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

As at December 31, 2017 *(in thousands of Euro)*	**Equity**	**Profit for the year**
Figures from the annual financial statements of Massimo Zanetti Beverage Group S.p.A.	**158,130**	**6,721**
Difference between carrying amount and pro rata value of shareholders’ equity of investments	144,711	-
Pro rata results of subsidiaries	-	27,751
Elimination of intercompany dividends	-	(16,212)
Elimination of intercompany profit	(2,540)	(150)
Currency translation differences	581	-
Figures from the consolidated financial statements	**300,882**	**18,110**

Proposed resolution concerning net profit for the year

Dear Shareholders,

We submit the following proposed resolution for your approval:

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

- having heard and approved the information provided by the Board of Directors;
- having examined the separate financial statements of Massimo Zanetti Beverage Group S.p.A. at December 31, 2017 e and the Management Report;
- having acknowledged the report of the Board of Statutory Auditors and the independent auditors' report, having examined the consolidated financial statements at December 31, 2017,

hereby resolves

1. to approve the separate financial statements of Massimo Zanetti Beverage Group S.p.A. at December 31, 2017;

2. to approve the following allocation of the net profit of Massimo Zanetti Beverage Group S.p.A. for 2017 totalling Euro 6,720,896 as follows:
   - Euro 336,045 to the legal reserve;
   - Euro 6,384,851 to retained earnings; and

3. to distribute a dividend of Euro 0.17 for each dividend-bearing share (gross of taxes), using the funds available in the "Other Reserves", for a total amount of Euro 5,831,000.

For the Board of Directors
President and CEO

Massimo Zanetti

Villorba (Treviso), February 28, 2018

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017

Consolidated Income Statement

(in thousands of Euro)	**Note**	**For the year ended December 31, 2017**	**2016**
Revenue	**21**	956,065	917,475
Other income	**22**	8,560	7,270
Raw, ancillary, and consumable materials and goods	**23**	(558,693)	(531,965)
Purchases of services, leases and rentals	**24**	(183,140)	(175,054)
Personnel costs	**25**	(145,640)	(138,749)
Other operating costs	**26**	(6,711)	(6,558)
Amortization, depreciation and impairment	**27**	(38,694)	(37,649)
Operating profit		**31,747**	**34,770**
Finance income	**28**	299	267
Finance costs	**28**	(8,295)	(7,841)
Share of losses of companies accounted for using the equity method		(787)	(110)
Profit before tax		**22,964**	**27,086**
Income tax expense	**29**	(4,854)	(10,322)
Profit for the year		**18,110**	**16,764**
Profit attributable to:			
Non-controlling interests		*174*	*178*
Owners of the parent		*17,936*	*16,586*
Basic/diluted earnings per share (in Euro)	**30**	**0.52**	**0.48**

Consolidated Statement of Comprehensive Income

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Profit for the period	**18,110**	**16,764**
Gains/(Losses) from cash flow hedges	(2,181)	454
Currency translation differences	(19,660)	3,695
Items that may be subsequently reclassified to profit or loss	**(21,841)**	**4,149**
Remeasurements of employee benefit obligations	(154)	(70)
Items that will not be reclassified to profit or loss	**(154)**	**(70)**
Total comprehensive (loss)/income for the period	**(3,885)**	**20,843**
Comprehensive income attributable to non-controlling interests	160	176
Comprehensive (loss)/income attributable to owners of the parent	**(4,045)**	**20,667**

Consolidated Statement of Financial Position

(in thousands of Euro)	Note	As at December 31, 2017	As at December 31, 2016 *
Intangible assets	**7**	183,231	190,943
Property, plant and equipment	**8**	212,830	220,173
Investment properties	**9**	4,887	4,319
Investments in joint ventures and associates	**10**	9,616	10,943
Non-current trade receivables	**11**	3,076	4,129
Deferred tax assets	**12**	10,244	10,279
Other non-current assets	**13**	13,669	16,036
Total non-current assets		**437,553**	**456,822**
Inventories	**14**	127,997	132,858
Trade receivables	**11**	123,405	120,074
Income tax assets		1,975	1,611
Other current assets	**13**	18,195	22,014
Cash and cash equivalents	**15**	89,594	45,167
Total current assets		**361,166**	**321,724**
Total assets		**798,719**	**778,546**
Share capital		34,300	34,300
Other reserves		98,162	124,738
Retained earnings		166,443	149,057
Total equity attributable to owners of the Parent		**298,905**	**308,095**
Non-controlling interests		1,977	1,849
Total equity	**16**	**300,882**	**309,944**
Non-current borrowings	**17**	204,145	192,117
Employee benefits	**18**	8,987	9,268
Other non-current provisions	**19**	2,986	3,949
Deferred tax liabilities	**12**	22,895	29,069
Other non-current liabilities	**20**	3,047	3,345
Total non-current liabilities		**242,060**	**237,748**
Current borrowings	**17**	78,731	77,430
Trade payables		139,329	122,209
Income tax liabilities		1,433	644
Other current liabilities	**20**	36,284	30,571
Total current liabilities		**255,777**	**230,854**
Total liabilities		**497,837**	**468,602**
Total equity and liabilities		**798,719**	**778,546**

(*) Restated figures (See Note 2.1)

Consolidated Statement of Cash Flows

(in thousands of Euro)	Note	For the year ended December 31, 2017	2016*
Profit before tax		**22,964**	**27,086**
Adjustments for:			
Amortization, depreciation and impairment	**27**	38,694	37,649
Provisions for employee benefits and other charges	**26**	561	1,050
Net finance expense	**28**	7,996	7,574
Other non-monetary items		3,667	(782)
Net cash generated from operating activities before changes in net working capital		**73,882**	**72,577**
Changes in inventories	**14**	(1,811)	6,913
Changes in trade receivables	**11**	(8,699)	4,620
Changes in trade payables		23,011	33,640
Changes in other assets/liabilities	**13/20**	(1,351)	(15,727)
Payments of employee benefits	**18**	(623)	(1,032)
Interest paid	**28**	(6,477)	(6,736)
Income tax paid		(6,029)	(7,753)
Net cash generated from operating activities		**71,903**	**86,502**
Acquisition of subsidiary, net of cash acquired	**5**	(2,583)	(39,292)
Acquisition under common control, net of cash acquired	**5**	-	(2,624)
Purchase of property, plant and equipment	**8**	(35,394)	(29,106)
Purchase of intangible assets	**7**	(1,222)	(1,698)
Proceeds from sale of property, plant and equipment	**8**	1,699	1,266
Proceeds from sale of intangible assets	**7**	6	55
Investments in joint ventures and associates	**10**	(777)	(10,139)
Changes in financial receivables		1,575	(3,403)
Interest received		143	32
Net cash used in investing activities		**(36,553)**	**(84,909)**
Proceeds from long-term borrowings	**17**	67,433	154,233
Repayment of long-term borrowings	**17**	(52,257)	(94,227)
Increase / (decrease) in short-term borrowings		1,811	(38,929)
Dividends paid	**16**	(5,305)	(3,211)
Net cash generated from financing activities		**11,682**	**17,866**
Exchange gains/(losses) on cash and cash equivalents		(2,605)	134
Net increase/(decrease) in cash and cash equivalents		**44,427**	**19,593**
Cash and cash equivalents at the beginning of the period		45,167	25,574
Cash and cash equivalents at the end of the period		**89,594**	**45,167**

(*) Restated figures (See Note 2.1)

Consolidated Statement of Changes in Equity

(in thousands of Euro)	Share capital	Other reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total
As at December 31, 2015	**34,300**	**121,803**	**135,786**	**291,889**	**1,797**	**293,686**
Profit for the period	-	-	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 loss for the period	**-**	**4,149**	**16,518**	**20,667**	**176**	**20,843**
Shareholders transactions						
Acquisition of Segafedo Zanetti World Wide SpA	-	-	(1,374)	(1,374)	-	**(1,374)**
Dividends paid	-	(3,087)	-	(3,087)	(124)	**(3,211)**
Reclassifications	-	1,873	(1,873)	-	-	**-**
As at December 31, 2016	**34,300**	**124,738**	**149,057**	**308,095**	**1,849**	**309,944**
Profit for the year	-	-	17,936	17,936	174	**18,110**
Remeasurements of employee benefit obligations	-	-	(140)	(140)	(14)	**(154)**
Losses from cash flow hedges	-	(2,181)	-	(2,181)	-	**(2,181)**
Currency translation differences	-	(19,660)	-	(19,660)	-	**(19,660)**
Total income for the period	**-**	**(21,841)**	**17,796**	**(4,045)**	**160**	**(3,885)**
Change in scope of consolidation	-	-	-	-	128	**128**
Shareholders transactions						**-**
Dividends paid	-	(5,145)	-	(5,145)	(160)	**(5,305)**
Reclassifications	-	410	(410)	-	-	**-**
Other changes	-	-	-	-	-	**-**
As at December 31, 2017	**34,300**	**98,162**	**166,443**	**298,905**	**1,977**	**300,882**

Notes to the Consolidated Financial Statements

1 General information

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

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

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

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

2 Accounting policies

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

2.1. Basis of Preparation

The consolidated financial statements as at and for the year ended December 31, 2017 (the "**Consolidated Financial Statements**"), approved by the Parent's Board of Directors on February 28, 2018, 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*".

Current and non-current trade receivables, other current and non-current assets, deferred tax assets and goodwill at December 31, 2016, included as corresponding figures in the statement of financial position, have been restated to improve the comparability with the corresponding balances at December 31, 2017.

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

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

- the *consolidated statement of financial position* classifies assets and liabilities using the “current/non-current” criterion;
- the *consolidated income statement* classifies operating costs by nature;
- the *consolidated statement of comprehensive income* includes income and costs not recognised in the income statement for the year, as required or allowed by IFRS, such as changes in the hedging reserve, in the actuarial reserve and in the translation reserve;
- the *consolidated statement of cash flows* presents the cash flows generated by operating activities using the “indirect method”.

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

2.2. Scope of Consolidation and Changes

The companies included within the scope of consolidation at December 31, 2017 and 2016 are listed in appendix 1.
Please refer to Note 5 *“Business Combinations* “for further information about the principal changes in the scope of consolidation during the years ended December 31, 2017 and 2016.

2.3. Consolidation Principles and Methodology

Subsidiaries

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

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

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

- the assets, liabilities, revenues and expenses of the subsidiaries are consolidated on a line-by-line basis, attributing to the non-controlling interests, where applicable, their share of equity and profit or loss for the year which is shown separately in equity and in the consolidated income statement;
- in accordance with IFRS 3, business combinations are accounted for using the acquisition method. Under this method, the consideration transferred for the acquisition is measured at fair value, represented by the sum of the fair values of the assets transferred and the liabilities assumed by the Group at the acquisition date and the equity instruments issued in exchange for control over the entity acquired. Transaction-related expenses are generally charged to the income statement as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are measured at fair value, except for the following items which are measured in

accordance with the applicable standard: *i)* deferred tax assets and liabilities, *ii)* assets and liabilities for employee benefits and *iii)* assets held for sale. In the case in which it is only possible to estimate provisionally the fair value of assets, liabilities and potential liabilities, the business combination is accounted for on the basis of provisional estimated values. Any subsequent corrections required following completion of the valuation process are accounted for within 12 months of the acquisition date;

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

Business combinations under common control

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

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

Joint ventures and associates

Joint ventures

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

Under the equity method, the Group's share of the entity's profit or loss for the year is accounted for in the income statement, with the exception of any other changes in the net equity of the entity which are recorded in the statement of comprehensive income.

In the case of losses incurred in excess of the carrying value of the investment, to the extent to which the venturer has legal or implicit obligations with regard to the joint venture or is required to cover its losses, the excess loss is accounted for by the venturer as a liability.

Associates

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

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

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Assets	57,315	54,761
Liabilities	41,283	36,215
Revenue	136,434	77,713
Loss for the year	(3,003)	(354)

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

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

The following exchange rates were used to translate the non-Euro financial statements of subsidiaries at December 31, 2017 and 2016:

Currency		Average exchange rate		Exchange rate as at December 30,		
		2017	**2016**	**2017**	**2016**	**2015**
United Arab Emirates Dinar	AED	4.15	4.10	4.40	3.87	4.00
Argentine Peso	ARS	18.73	16.22	22.93	16.75	14.10
Australian Dollar	AUD	1.47	1.51	1.53	1.46	1.49
Brazilian Real	BRL	3.60	3.96	3.97	3.43	4.31
Canadian Dollar	CAD	1.46	1.48	1.50	1.42	n.a.
Swiss Franc	CHF	1.11	1.09	1.17	1.07	1.08
Chilean Peso	CLP	732.19	758.99	737.29	704.95	772.71
Costarican Colon	CRC	640.87	603.60	682.85	580.81	585.64
Czech Koruna	CZK	26.33	27.04	25.54	27.02	27.02
Danish Crown	DKK	7.44	7.45	7.44	7.43	7.46
British Pound	GBP	0.88	0.80	0.89	0.86	0.73
Hong Kong Dollar	HKD	8.80	8.66	9.37	8.18	8.44
Croatian Kuna	HRK	7.46	7.54	7.44	7.56	7.64
Hungarian Forint	HUF	309.27	312.16	310.33	309.83	315.98

Currency		Average exchange rate		Exchange rate as at December 30,		
		2017	2016	2017	2016	2015
Indonesian Rupiah	IDR	15,113.20	n.a.	n.a.	n.a.	n.a.
Japanese Yen	JPY	126.65	121.11	135.01	123.40	131.07
Mexican Peso	MXN	21.33	20.41	23.66	21.77	18.91
Malaysian Ringgit	MYR	4.85	4.56	4.85	4.73	4.70
New Zealand Dollar	NZD	1.59	1.61	1.69	1.52	1.59
Polish Zloty	PLN	4.26	4.36	4.18	4.41	4.26
Romanian Leu	RON	4.57	4.49	4.66	4.54	4.52
Singapore Dollar	SGD	1.56	1.53	1.60	1.52	1.54
Thai Bhat	THB	38.28	39.33	39.12	37.73	39.25
US Dollar	USD	1.13	1.12	1.20	1.05	1.09
Vietnamese Dong	VND	25,652.00	24,907.29	27,233.00	23,991.84	24,475.10

2.4. Accounting Policies

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

Property, plant and equipment

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

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

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

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

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

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

Leased assets

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

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

Biological assets

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

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

Investment properties

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

Intangible assets

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

(a) Goodwill and trademarks with an indefinite useful life

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

(b) Other intangible assets with a finite useful life

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

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

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

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

Impairment of intangible assets and property, plant and equipment

(a) Goodwill and trademarks with an indefinite useful life

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

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

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

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

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

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

Where indicators of impairment are deemed to exist, the recoverable value of the relevant assets are estimated and any impairment adjustments with respect to their carrying amounts are charged to the income statement. The recoverable value of an asset is represented by the greater of its fair value, net of disposal costs, and its value in use, which is defined as the present value of the estimated future cash flows deriving from the asset. When determining value in use, the expected future cash flows are discounted using a pre-tax rate that reflects the current market assessment of the cost of money,

considering the length of the investment period and the specific risks associated with the asset. The recoverable value of assets that do not generate independent cash flows is determined with reference to the CGU to which such assets belong.

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

Trade receivables and other financial assets

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

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

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

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

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

Inventories

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

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

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

Cash and cash equivalents

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

Non-current assets held for sale

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

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

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

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

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

Borrowings and other financial liabilities

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

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

Derivative instruments and hedging activities

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

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

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

Cash flow hedges
The Group designates certain derivative instruments as 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 hedging reserve up to that moment is retained within equity and is then released to the income statement at the time the hedged transaction takes place.

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

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

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

Forward purchase and sale of green coffee
The Group analyses all forward purchases and sales of non-financial assets and, in particular, forward purchases and sales of green coffee, to assess how these should be classified and treated in accordance with 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 recognised for defined benefit plans corresponds to the present value of the obligation at the reporting date. The obligations under defined benefit plans are determined each year by an independent actuary, using the projected unit credit method. The present value of defined benefit plans is determined by discounting the future cash flows using an interest rate based on that of high-quality corporate bonds issued in Euro that takes into account the duration of the pension plan concerned. The actuarial gains and losses deriving from adjustments in the total liability and the effect of changes in the actuarial assumptions are recognized in other comprehensive income.

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

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

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

Provisions

Provisions are recognised to provide for known or likely losses or liabilities, the timing and/or amount of which cannot be determined. Provisions are only recorded when there exists a present obligation, whether legal or constructive, for a future outflow of resources relating to past events, and when it is probable that such outflow will be required to settle the obligation. Provisions represent the best

estimate of the expenditure required to settle the related obligation. The rate used to calculate the present value of the liability reflects market values and takes into account the specific risk associated with each liability.

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

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

Trade payables and other liabilities

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

Revenue recognition

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

Taxation

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

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

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

Current income taxes and the changes in deferred tax assets and liabilities are recognised as "Income tax expense" in the income statement, except for those taxes relating to items (other than profit for the year) included in the statement of comprehensive income and those relating to amounts credited or charged directly to equity. In such cases, deferred taxes are recognised in the statement of comprehensive income and directly in equity. Deferred tax assets and liabilities are netted when they

are applied by the same tax authorities, there is a legal right of offset and the net balance is likely to be settled.

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

Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

2.5. Recently-Issued Accounting Standards

Accounting standards, amendments and interpretations adopted by the Group from January 1, 2017

The following accounting standards and amendments have been adopted by the Group with effect from January 1, 2017:

- Amendments to IAS 12 - *Income taxes*. The IASB clarifies how to account for deferred tax assets related to unrealised losses on debt instruments measured at fair value which result in a temporary difference deductible when the owner of the debt instrument expects to hold it to maturity.
- Amendments to IAS 7 - *Statement of Cash Flows*. The improvements cover the disclosure about changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). The statement of cash flows was adjusted to the new requirements and a reconciliation of the opening and closing balances of the liabilities arising from financing activities was provided.

The adoption of the above amendments did not have a significant impact on the Consolidated Financial Statements.

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

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

- *IFRS 9 "Financial Instruments"*. On July 24, 2014, the IASB completed the revision of the standard governing financial instruments with the publication of the final version of IFRS 9 - "Financial Instruments" ("IFRS 9"). The new provisions set out in IFRS 9:
  - change the classification and measurement requirements for financial assets;
  - incorporate a new expected loss impairment model which considers expected credit losses; and
  - change hedge accounting provisions.

IFRS 9, which was endorsed by the European Commission with Regulation (EU) no. 2016/2067 of November 22, 2016, is effective for annual periods beginning on or after January 1, 2018. Management has substantially completed the analysis of the Group's financial assets and liabilities and essentially concluded the following with respect to the impact of the adoption of the new standard from January 1, 2018:

- the introduction of IFRS 9 will have no impact on the model used to classify and measure the Group's financial assets and liabilities;
- under the new impairment model applicable to financial assets, the accruals to the allowance for impairment are based on expected losses rather than on the losses already incurred as set out in IAS 39. According to the assessments carried out, the Group expects an insignificant adjustment to the allowance for impairment related to trade receivables;
- under the new hedge accounting rules, the recognition of hedging instruments will be more in line with the Company's risk management policies. The Group confirms that the current hedging relationships will continue to meet hedge accounting requirements also after the adoption of IFRS 9.

The Group will apply IFRS 9 as of January 1, 2018, using the practical expedients permitted by the standard and without restating the corresponding balances

- *IFRS 15 "Revenue from Contracts with Customers".* On May 28, 2014, the IASB published IFRS 15 - "Revenue from Contracts with Customers" ("IFRS 15"), which specifies when recognising and how to calculate the amount of the revenue from contracts with customers, including contract work in progress. Specifically, under IFRS 15, revenue is recognised based on the following five-step model framework:
  - identify the contract(s) with a customer;
  - identify the performance obligations in the contract;
  - determine the transaction price;
  - allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices;
  - recognise revenue when (or as) the entity satisfies a performance obligation.

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

IFRS 15, which was endorsed by the European commission with Regulation (EU) no. 2016/1905 of September 22, 2016, is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. Management has substantially completed the analysis of the Group's contracts with customers which focused on the impact of IFRS 15 as of January 1, 2018. After considering the effects of the application of the new standard on the Group's financial statements, it concluded that IFRS 15 is not expected to have a material and/or a significant impact on the nature and the accounting policies currently applied by the Group to revenue.

Under IFRS 15, an entity shall account for consideration payable to a customer as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service received from the customer and measured at fair value. Therefore, as of January 1, 2018, the Group will reclassify this type of consideration – which is not expected to be significant – from "purchases of services, leases and rentals" to a decrease in "revenue".

Under IFRS 15, contract assets and liabilities shall be presented separately in the statement of financial position. Therefore, as of January 1, 2018, the Group will reclassify some contract assets and liabilities (e.g., the discounts granted to the Foodservice channel customers and advances from customers) which are currently included in "other current assets", "other non-current assets" and "other current liabilities". These amounts are not expected to be significant.

The Group intends to adopt the modified retrospective approach, recognising the cumulative effect at January 1, 2018 in "retained earnings", without restating corresponding balances.

- *Clarifications on IFRS 15 "Revenue from Contracts with Customers".* This document, which was published by the IASB on April 12, 2016, clarifies some issues about the implementation of IFRS 15 - "Revenue from Contracts with Customers" ("IFRS 15")..

  The amendments to IFRS 15 are applicable for annual periods beginning on or after January 1, 2018.

  They were endorsed by the European Union on October 31, 2017.

  This new revenue-recognition standard is based on the principle that revenue shall be recognised when control over goods or services is transferred to the customer. For information about the analysis carried out by the Group, reference should be made to that already set out in the note IFRS 15 "Revenue from Contracts with Customers".

- *IFRS 16 "Leases".* On January 13, 2016, the IASB published IFRS 16 "Leases" ("IFRS 16") which replaces IAS 17 "Leases" and the related interpretations. IFRS 16 eliminates the difference between operating and finance leases for the purposes of lessees' financial statements preparation. For all leases with a term of more than 12 months, companies shall recognise a right-of-use assets and a liability related to the lease payments. Conversely, for the purposes of lessors' financial statements preparation, the difference between operating and finance leases is maintained. IFRS 16 strengthens disclosures for both lessors and lessees.

  The amendments to IFRS 16 are applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 has also been applied.

  IFRS 16 was endorsed by the European Union on October 31, 2017.

  This standard will mainly affect the Group's criteria for the recognition of operating leases.

  At the reporting date, the Group had in place operating leases, mainly related to plantations, buildings, plant and machinery and industrial equipment. The Group is considering the short-term lease accounting treatment and that applicable to underlying assets with a low value, as well as the accounting policies for the definition of the lease term, including the extension and termination options and variable payments. The Group is therefore assessing the impact of right-of-use assets and the related financial liability to be recognised upon the adoption of the new standard on January 1, 2019.

- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. This amendment, which will be applicable for annual periods beginning on or after January 1, 2018, addresses concerns about issues arising from implementing IFRS 9, Financial Instruments, before the new insurance contracts standard comes into effect. It provides two options for entities that issue insurance contracts within the scope of IFRS 4: *i)* an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; *ii)* an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. The provisions introduced by the coming into force of this standard are not expected to have any financial impact on the Group.

- *Annual Improvements to IFRSs: 2014-2016 Cycle* They are part of the annual improvement process and will be applicable for annual periods beginning on or after January 1, 2018. The process covered the following: deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose; clarified the scope of IFRS 12 by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5; clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint

venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The provisions introduced by the coming into force of this standard are not expected to have any financial impact on the Group.

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

At the reporting date, the following standards and amendments had not yet been endorsed by the European Union.

- *Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions".* This amendment, which was published by the IASB on June 20, 2016, clarifies the accounting for cash-settled share-based payment transactions and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Furthermore, this document introduces an exception to IFRS 2 so that a share-based payment is classified as equity-settled in its entirety when the employer is required to withhold an amount for an employee's tax obligation to be paid to the tax authorities.

  The amendments are applicable for annual periods beginning on or after January 1, 2018. Early application is permitted. The provisions introduced by the coming into force of this standard are not expected to have any financial impact on the Group.

- *Amendments to IAS 40 "Transfers of Investment Property".* These amendments, which were published by the IASB on December 8, 2016, clarify that the transfers into, or out of, investment property should only be made when there is evidence of a change in use. Therefore, a change of use occurs if the property meets, or ceases to meet, the definition of investment property. This change must be supported by evidence.

  The amendments are applicable for annual periods beginning on or after January 1, 2018. The provisions introduced by the coming into force of this interpretation are not expected to have any financial impact on the Group.

- *IFRIC 22 "Foreign currency transactions and advance consideration".* This interpretation, which was published by the IASB on December 8, 2016, clarifies the accounting for foreign currency transactions or parts of transactions whose consideration is expressed in a foreign currency. It provides guidance for transactions involving one single payment/receipt as well as for those comprising more payments/receipts. The aim of the interpretation is to reduce the use of inconsistent methods.

  It is applicable for annual periods beginning on or after January 1, 2018. The provisions introduced by the coming into force of this interpretation are not expected to have any financial impact on the Group.

- *IFRIC 23 "Uncertainty over Income Tax Treatments".* On June 7, 2017, the IASB published IFRIC 23 "*Uncertainty over Income Tax Treatments*", which provides guidance about the recognition of current and/or deferred tax assets and liabilities related to income taxes, when there is uncertainty over income tax treatments under the applicable tax legislation.

  IFRIC 23 provisions are effective for annual periods beginning on or after January 1, 2019.

- *Amendments to IFRS 9 "Prepayment Features with Negative Compensation".* On October 12, 2017, the IASB published this amendment to IFRS 9 which addresses some issues concerning the application and classification under IFRS 9 "Financial Instruments" of particular prepayable financial assets. In addition, the IASB clarifies an aspect of the accounting for financial liabilities following a modification.

The amendment to IFRS 9 is effective for annual periods beginning on or after January 1, 2019.

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

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

  IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

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

2.6. 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 2017 was affected by the acquisition of Nutricafès (September 2016). The acquired company's results were consolidated starting from September 2016.

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

3 Management of Financial Risks

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

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

Market risk

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

Interest rate risk

Interest rate swaps are entered into to reduce the exposure to changes in interest rates for long-term borrowings. Interest rate swaps provide for the periodic swap of floating rate interest into fixed rates,

both calculated using the same notional principal. From an operational viewpoint, the instruments used by the Group are deemed of a hedging nature.

The notional value of the interest rate swaps outstanding at December 31, 2017 totalled Euro 90,833 thousand (Euro 23,476 thousand at December 31, 2016). The interest rate swaps outstanding at December 31, 2017 had a negative fair value of Euro 1,293 thousand (negative fair value of Euro 1,806 thousand at December 31, 2016).

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, 2017 and 2016. Where necessary, interest rate swaps are entered into to turn it to fixed interest rates. In the first half 2017, management decided to exploit the positive conditions of the interest rate market and, consequently, entered into the above contracts. Consequently, the exposure to interest rate fluctuations, subject to constant monitoring by management, fell from 89% to 55% at December 31, 2016 and 2017, respectively.

An increase/decrease of 1% (100 basis points) in floating interest rates, compared to those applicable at December 31, 2017 and 2016, 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 1,257 thousand in 2017 and Euro 1,915 thousand in 2016.

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 at December 31, 2017 was Euro 90,605 thousand (Euro 21,309 thousand at December 31, 2016). Forward contracts outstanding at December 31, 2017 had a negative fair value of Euro 2,381 thousand (positive fair value of Euro 1,097 thousand at December 31, 2016).

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

Net investment hedges are accounted for in the same way as cash flow hedges. No hedges were in place at December 31, 2017 or 31 December, 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 risks deriving from fluctuations in the price of green coffee by entering into forward contracts for the purchase of green coffee that fix the price of expected future purchases. The maturity of such contracts is generally four to six months. For further details, please refer to Note 32 - *Related Party Transactions*.

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

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

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

The Group's contractual obligations for which the own use exemption conditions applied amounted to Euro 211,639 thousand at December 31, 2017 (Euro 219,495 thousand at December 31, 2016).

Credit risk

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

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

The following table sets forth a breakdown of trade receivables by channel at December 31, 2017 and 2016:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016(*)**
Mass Market	66,602	68,082
Foodservice	49,686	47,744
Others	10,193	8,377
Total	**126,481**	**124,203**
of which		
Trade receivables	*123,405*	*120,074*
Non-current advances and trade receivables	*3,076*	*4,129*

(*) Restated figures (See Note 2.1)

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

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

Others: Trade receivables due from other customers.

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

The following table sets forth an ageing analysis of current and non-current trade receivables at December 31, 2017 and 2016, net of the provision for impairment:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016(*)**
Not due	93,137	91,230
Past due 0-90 days	22,027	20,262
Past due 91-180 days	2,665	2,499
Past due over 180 days	8,652	10,212
Total	**126,481**	**124,203**

(*) Restated figures (See Note 2.1)

Liquidity risk

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

At December 31, 2017, the Group had credit lines totalling Euro 224,591 thousand (Euro 223,444 thousand at December 31, 2016), arranged with various banks to cover overdraft requirements.

The undrawn portion of such credit lines at December 31, 2017 totalled Euro 171,577 thousand (Euro 170,977 thousand at December 31, 2016).

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, 2017 and 2016:

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

As at December 31, 2016 *(in thousands of Euro)*	**Carrying amount**	**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**

Capital risk

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

Financial assets and liabilities by category

The fair value of trade receivables and other financial assets, trade payables, other payables and other financial liabilities classified as "current" in the statement of financial position and measured at amortized cost is the same as the related carrying amounts in the Consolidated Financial Statements at December 31, 2017 and 2016, as they primarily relate to balances generated by normal business that will be settled in the short term.

The following tables set forth an analysis of the Group's financial assets and liabilities by category at December 31, 2017 and 2016:

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

As at December 31, 2016* *(in thousands of Euro)*	**Loans and receivables**	**Investments held to maturity**	**Assets / liabilities at fair value**	**Hedging derivatives at fair value**	**Total financial assets / liabilities**	**Non-financial assets / liabilities**	**Total**
Assets							
Current trade receivables and non-current trade receivables and advances	124,203	-	-	-	**124,203**	-	**124,203**
Other current and non-current assets	25,165	-	-	1,097	**26,262**	11,788	**38,050**
Cash and cash equivalents	45,167	-	-	-	**45,167**	-	**45,167**
Total assets	**194,535**	**-**	**-**	**1,097**	**195,632**	**11,788**	**207,420**
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**

(*) Restated figures (See Note 2.1)

Fair value

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

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

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

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

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

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

As at 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**

The fair value of derivatives at December 31, 2017 and 2016 is measured in accordance with Level 2.

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

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

There were no changes in measurement techniques during the years ended December 31, 2017 and 2016. Similarly, there were no changes in the valuation techniques used. Decisions to classify financial instruments in terms of Level 2 or Level 3 are taken at each balance sheet date for financial reporting purposes.

4 Use of Estimates and Assumptions

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

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

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

Goodwill and trademarks with an indefinite useful life

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

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

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

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

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

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

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

(d) ***Taxation***

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

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

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

(f) ***Employee benefits***

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

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

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

5 Business Combinations

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

2017

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

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

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

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

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

2016

In 2016, the Group completed : *i)* the acquisition of 100% of Nutricafés (Euro 40,459 thousand), *ii)* the acquisition of 100% of Segafredo Zanetti Worldwide Italia S.p.A. (Euro 2,800 thousand), *iii)* minor acquisitions, though relevant to the company business, in Vietnam, Italy and Australia (Euro 383 thousand).

6 Operating Segments

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

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

7 Intangible Assets

The item can be broken down as follows:

(in thousands of Euro)	Goodwill	Trademarks, licenses, and similar	Customer related assets	Software and other immaterial assets	Total
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	41,441	30,000	2,123	606	**74,170**
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 *	**115,448**	**67,578**	**3,750**	**4,167**	***190,943***
Of which:					
- historical cost	*115,448*	*73,893*	*5,586*	*20,193*	***215,120***
- accumulated depreciation	-	*(6,315)*	*(1,836)*	*(16,026)*	***(24,177)***
Change in scope of consolidation	*2,149*	-	-	-	**2,149**
Capital expenditure	-	*94*	-	*1,128*	**1,222**
Disposals	-	-	-	*(6)*	**(6)**
Amortization	-	*(3,087)*	*(606)*	*(1,760)*	**(5,453)**
Exchange differences	*(3,159)*	*(2,158)*	*(218)*	*(89)*	**(5,624)**
As at December 31, 2017	**114,438**	**62,427**	**2,926**	**3,440**	**183,231**
Of which:					
- historical cost	*114,438*	*71,568*	*5,184*	*19,758*	***210,948***
- accumulated depreciation	-	*(9,141)*	*(2,258)*	*(16,318)*	***(27,717)***

(*) Restated figures (See Note 2.1)

Intangible assets at December 31, 2017 principally comprise goodwill. Specifically, total goodwill at December 31, 2017, in addition to the acquisitions referred to in note 5, mainly arose from the following transactions:

- acquisition in 2002 of Meira Oy (Finland) for which goodwill amounted to Euro 24,000 thousand (the same amount of goodwill was recognised at December 31, 2016);
- acquisition in 2005 of the US retail activities of Sara Lee and, in 2011, of Kauai Coffee Company LLC for which goodwill amounted to Euro 3,008 thousand (Euro 3,620 thousand at December 31, 2016);
- acquisition in 2010, through the Australian subsidiary, of Espresso Italia Ltd for which goodwill amounted to Euro 4,921 thousand (Euro 5,194 thousand at December 31, 2016);
- acquisition in 2014 of Boncafe for which goodwill amounted to Euro 33,367 thousand (Euro 35,422 thousand at December 31, 2016); and
- acquisition in 2016 of Nutricafés for which goodwill amounted to Euro 41,191 thousand (the same amount of goodwill was reported at December 31, 2016);
- acquisition in 2017 of the Tru Blue business line for which provisional goodwill amounted to Euro 1,607.

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 6,753 thousand at December 31, 2017 (Euro 7,682 thousand at December 31, 2016) whose recoverability was checked as part of the impairment tests;

ii) the Puccino’s and Segafredo Zanetti Espresso families of trademarks, with finite useful lives, amounting to Euro 2,093 thousand and Euro 8,458 thousand at December 31, 2017, respectively (Euro 2,219 thousand and Euro 8,964 thousand at December 31, 2016, respectively). Such trademarks were acquired from MZ Industries by Massimo Zanetti Beverage S.A. and Segafredo Zanetti Espresso Worldwide Ltd respectively, on September 25, 2014, for a consideration of Euro 2,500 thousand and Euro 10,100 thousand, respectively, based on the specific appraisals carried out by Bugnion S.p.A.;

iii) the Boncafe family of trademarks amounting to Euro 13,580 thousand at December 31, 2017 (Euro 15,114 thousand at December 31, 2016).

iv) trademarks, distinctive features and commercial information of Ceca S.A. (Based in Costa Rica and part of Neumann Gruppe GmbH) acquired in April 2015 for a consideration of USD 3,500 thousand, amounting to USD 2,703 thousand at December 31, 2017. 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 finite useful life, with a carrying amount of Euro 28,400 thousand at December 31, 2017 (Euro 29,600 at December 31, 2016).

Impairment test

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

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

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

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

- the projections included in the business plan submitted to the Board of Directors on February 23, 2018 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 (2018-2020) analysed in the business plan. Such terminal value has been calculated using a long-term growth rate (g-rate) for each CGU, representing the expected long-term inflation rate in the countries in which each CGU operates, based on the estimates of the International Monetary Fund (see the summary table below). In estimating a sustainable medium to long term EBITDA, an EBITDA margin equal to that estimated for the final year of the business plan has been applied to revenues (in turn identified by applying the g-rate to revenues in the final year covered by the business plan). Annual investments were estimated based on the amount deemed to represent both the normalised investments necessary to maintain the existing assets and those required to support the organic growth of the CGUs. A zero change in net working capital has been assumed in line with normal professional practice in relation to impairment testing.

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

The recoverable value of the individual CGUs at December 31, 2017, calculated on the aforementioned basis, is greater than the related carrying amount. The following table summarises the results of the impairment test at December 31, 2017.

As at December 31, 2017	**Americas**	**Northern Europe**	**Southern Europe**	**Asia-Pacific and Cafés**
Recoverable amount / carrying amount	219%	367%	120%	170%
WACC	6.83%	5.16%	6.26%	6.64%
g-rate	2.30%	2.10%	1.71%	2.17%

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

The results of such sensitivity analysis are as follows:

As at December 31, 2017	**Americas**	**Northern Europe**	**Southern Europe**	**Asia-Pacific and Cafés**
Recoverable amount / carrying amount (WACC +0.5%)	197%	315%	108%	153%
Recoverable amount / carrying amount (g-rate -0.75%)	190%	298%	103%	147%
Recoverable amount / carrying amount (EBITDA -7.5%)	195%	329%	99%	152%

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

8 Property, Plant and Equipment

Property, plant and equipment includes assets held under finance lease totalling Euro 5,147 thousand and Euro 3,383 thousand at December 31, 2017 and 2016, respectively.

(in thousands of Euro)	**Land and buildings**	**Plant and machinery**	**Industrial and commercial equipment and other assets**	**Bar equipment**	**Asset under construction**	**Total**
As at December 31, 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**
Capital expenditure	2,493	1,914	4,576	15,071	6,064	**30,118**
Disposals	(562)	(22)	(127)	(155)	-	**(866)**
Amortization	(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)***
Change in scope of consolidation	-	25	32	144	-	**201**
Capital expenditure	1,439	4,984	6,040	19,007	3,224	**34,694**
Disposals	(236)	(23)	(335)	(322)	-	**(916)**
Amortization	(4,029)	(6,407)	(5,390)	(15,516)	-	**(31,342)**
Reclassifications	85	1,867	461	17	(2,430)	**0**
Exchange differences	(2,088)	(6,552)	(640)	(552)	(148)	**(9,980)**
As at December 31, 2017	**77,099**	**64,484**	**22,013**	**47,000**	**2,234**	**212,830**
Of which:						
- historical cost	*118,801*	*147,345*	*79,495*	*178,093*	*2,234*	***525,968***
- accumulated depreciation	*(41,702)*	*(82,861)*	*(57,482)*	*(131,093)*	-	***(313,138)***

(*) Restated figures (See Note 2.1)

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

9 Investment Properties

The item can be broken down as follows:

(in thousands of Euro)	Land	Buildings	Total
As at December 31, 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)*
Increases	*140*	*560*	700
Amortization	-	(132)	(132)
As at December 31, 2017	**1,159**	**3,728**	**4,887**
Of which:			
- historical cost	*1,159*	*4,685*	*5,844*
- accumulated depreciation	-	*(957)*	*(957)*

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

The increases of the year refer to the purchase of a building and the related land in Mantua (MN), through a finance lease organised by Unicredit Leasing S.p.A..

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

10 Investments in joint ventures and associates

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

(in thousands of Euro)	**As at December 31, 2017**
As at December 31, 2016	**10,943**
Net increases	777
Profit for the Period	(787)
Exchange differences	(1,317)
As at December 31, 2017	**9,616**

In the six months ended June 30, 2017, the Group subscribed a share capital increase in Virtus Pallacanestro Bologna S.S.D. a R.L., located in Bologna, with an overall share of 40%. The investment amounted to Euro 840 thousand. The Group is of the opinion that it exercises significant influence over the club and so it has been classified as an associated company and accounted for using the equity method.

In 2016, through its North American subsidiary Massimo Zanetti Beverage USA, the Group acquired a minority stake (15.1%) in Coffee Club LP, based in Toronto, for Euro 10,139 thousand. The Group has determined to exercise significant influence over Club Coffee LP and so it has been classified as an associated company and accounted for using the equity method.

11 Current and Non-Current Trade Receivables

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016(*)**
Trade receivables and other receivables	138,745	138,369
Allowance for impairment of trade receivables	(15,340)	(18,295)
Total trade receivables	**123,405**	**120,074**
Non-current trade receivables and other receivables from customers	8,477	9,465
Non-current allowance for impairment of trade receivables	(5,401)	(5,336)
Total non-current trade receivables	**3,076**	**4,129**
Total current and non-current trade receivables	**126,481**	**124,203**

(*) Restated figures (See Note 2.1)

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

(in thousands of Euro)	**Allowance for impairment of trade receivables**	**Non-current allowance for impairment of trade receivables**
At December 31, 2016 *	**18,295**	**5,336**
Accruals	1,127	843
Releases	(203)	-
Utilizations	(3,822)	(778)
Exchange differences	(57)	-
As at December 31, 2017	**15,340**	**5,401**

(*) Restated figures (See Note 2.1)

12 Deferred Tax Assets and Liabilities

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

	As at December 31,	
(in thousands of Euro)	**2017**	**2016 ***
As at January 1	**(18,790)**	**(12,962)**
Of which:		
- deferred tax assets	*10,279*	*11,046*
- deferred tax liabilities	*(29,069)*	*(24,008)*
Charged to the income statement	3,337	(1,158)
Credited/(Charged) to the other comprehensive income	962	(203)
Change in scope of consolidation	-	(4,470)
Reclassifications	(31)	(9)
Exchange differences	1,871	(468)
As at December 31	**(12,651)**	**(18,790)**
Of which:		
- deferred tax assets	*10,244*	*10,279*
- deferred tax liabilities	*(22,895)*	*(29,069)*

(*) Restated figures (See Note 2.1)

Deferred tax assets mainly relate to carry-forward tax losses and accruals to the provisions for obsolescence, impairment and risks that will become tax deductible only when the related loss becomes certain. Deferred tax liabilities mainly relate to intangible assets and property, plant and equipment whose tax deductible amount is below the related carrying amount. The Euro 6,174 thousand decrease in deferred tax liabilities is mainly due to the effect of the tax reform passed by the US government in 2017.

13 Other Current and Non-Current Assets

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016 ***
Guarantee deposits	2,098	2,644
Other non-current assets	11,571	13,392
Total other non-current assets	**13,669**	**16,036**
Financial receivables	2,327	3,495
Advances to suppliers and others	8,408	9,339
Other tax credits	1,360	2,449
Derivatives on exchange rates	-	1,097
Other current assets	6,100	5,634
Total other current assets	**18,195**	**22,014**

(*) Restated figures (See Note 2.1)

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

14 Inventories

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Raw materials	57,256	61,550
Finished goods	67,017	67,645
Work in progress	3,724	3,663
Total	**127,997**	**132,858**

Inventories are stated net of the provision for obsolescence, amounting to Euro 1,190 thousand and Euro 1,229 thousand at December 31, 2017 and 2016 respectively. The accruals to these provisions for 2017 and 2016 amount to Euro 129 thousand and Euro 126 thousand, respectively.

15 Cash and cash equivalents

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Cash at bank	88,791	44,236
Cash and cash equivalents	803	931
Total cash and cash equivalents	**89,594**	**45,167**

The following table sets for a breakdown of cash and cash equivalents by currency at December 31, 2017 and 2016:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Cash and cash equivalents denominated in Euro	45,737	32,242
Cash and cash equivalents denominated in USD	33,576	2,428
Cash and cash equivalents denominated in Bath	1,679	2,347
Cash and cash equivalents denominated in other currencies	8,602	8,150
Total cash and cash equivalents	**89,594**	**45,167**

16 Equity

Share capital

At December 31, 2017, the issued and fully paid-up share capital of the Parent amounted to Euro 34,300 thousand (Euro 34,300 thousand at December 31, 2016) and comprised 34,300,000 ordinary shares without nominal value.

Other reserves and retained earnings

Other reserves and retained earnings are detailed as follows:

(in thousands of Euro)	*Legal reserve*	*Share premium reserve*	*Other reserves*	*Cash flow hedge reserve*	*Net investment hedge*	*Translation reserve*	*Total other reserves*	*Retained earnings*
As at December 31, 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 to non-controlling interests	-	-	(3,087)	-	-	-	**(3,087)**	**-**
Profit for the year	-	-	-	-	-	-	**-**	**16,586**
Reclassifications	18	-	-	-	1,855	-	**1,873**	**(1,873)**
As at December 31, 2016	**3,786**	**62,918**	**46,792**	**740**	**(8,578)**	**19,080**	**124,738**	**149,057**
Remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**(194)**
Tax on remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**54**
Cash flow hedge: fair value losses in the period	-	-	-	(3,143)	-	-	**(3,143)**	**-**
Tax on fair value losses in the period from cash flow hedges	-	-	-	962	-	-	**962**	**-**
Currency translation differences	-	-	-	-	-	(19,661)	**(19,661)**	**-**
Acquisition of PT Caswels Indonesia	-	-	-	-	-	-	**-**	**-**
Dividends paid to non-controlling interests	-	-	(5,145)	-	-	-	**(5,145)**	**-**
Profit for the year	-	-	-	-	-	-	**-**	**17,936**
Reclassifications	410	-	-	-	-	-	**410**	**(410)**
As at December 31, 2017	**4,196**	**62,918**	**41,647**	**(1,441)**	**(8,578)**	**(581)**	**98,161**	**166,443**

The share premium reserve, amounting to Euro 62,918 thousand at December 31, 2017, is recognised net of the listing costs incurred in 2015 and related to the share capital increase of Euro 3,862 thousand (net of taxes) and in accordance with IAS 32.

17 Current and Non-current borrowings

The following table sets forth a breakdown of current and non-current borrowings at December 31, 2017 and 2016:

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

As at 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
Finance lease liabilities	1,608	2,041	683	4,332
Total	**77,430**	**142,919**	**49,198**	**269,547**

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, 2017	As at December 31, 2016
		(in thousands)	*(in thousands of Euro)*	
denominated in Euro				
Euribor 6M + 3.00%	2013	20,000	-	8,459
Euribor 3M + 3.50%	2013	12,000	-	2,518
Euribor 6M + 2.50%	2011	15,000	-	2,774
Euribor 6M + 1.25%	2015	5,000	847	2,524
Euribor 3M + 1.25%	2015	12,000	8,333	9,667
Euribor 6M + 1%	2016	5,000	2,796	4,437
Euribor 3M + 1.10%	2016	15,000	11,657	14,969
Euribor 6M + 1.35%	2016	50,000	50,000	50,000
Euribor 6M + 0.90%	2016	9,000	8,991	8,987
Euribor 6M + 1.05%	2016	50,000	49,824	49,787
Euribor 6M + 0.9%	2016	10,000	9,997	9,995
Euribor 3M + 0.75%	2016	10,000	9,996	9,995
Euribor 6M +1%	2016	10,000	9,984	4,962
0.80%	2017	10,000	9,984	-
Euribor 3M +0.85%	2017	15,000	14,985	-
Euribor 3M +0.85%	2017	10,000	9,023	-
Other loans	-	-	2,951	1,068
		subtotal	**199,369**	**180,142**
denominated in USD				
Libor 1M + 2.50%	2015	39,620	-	31,680
6.5% Libor 3M + 7.5%	2015	3,000	1,915	2,523
Libor 3M + 1.50%	2017	30,000	24,428	-
		subtotal	**26,343**	**34,203**
Total			**225,712**	**214,345**
of which non-current			*201,453*	*189,393*
of which current			*24,259*	*24,952*

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

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

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

The Group's loan contracts during the periods under examination require compliance with certain operational and financial covenants, which had been complied with at December 31, 2017 and 2016. Consequently, there are no events of default to be reported.

In 2017, the Group entered into new medium/long-term loan contracts with the following banks:

- Banco BPM – entered into on April 07, 2017 for a principal amount of Euro 10,000 thousand and with a maturity date of June 30, 2022;
- UBI Banca – entered into on May 18, 2017 for a principal amount of Euro 15,000 thousand and with a maturity date of May 18, 2022;
- Wells Fargo Bank – entered into on December 13, 2017 for a principal amount of USD 30,000 thousand (Euro 25,015 thousand at December 31, 2017) and with a maturity date of December 13, 2022.

Furthermore, on December 13, 2017, the Euro 26,163 thousand loan granted by Branch Banking and Trust Company in 2015 was repaid early.

In order to reduce the Group's exposure to interest rate fluctuations, certain interest rate swaps were agreed on existing loans in 2017 for a total of Euro 82,500 thousand. However, these instruments, in addition to those entered into in previous years, 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.

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)	**2017**	**2016**
Principal amount of long-term borrowings		
- at variable rate	216,548	214,995
- at fixed rate	10,000	-
Notional value of derivatives on interest rates	90,833	23,476
Long-term borrowings converted at fixed rate	45%	11%
Remaining portion of long-term borrowings at variable rate	55%	89%
Long-term borrowings denominated in Euro	88%	84%
Long-term borrowings denominated in USD	12%	16%

Advances from factors and banks

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

Net financial indebtedness

The following table sets forth a breakdown of the Group's net financial indebtedness as at December 31, 2017 and 2016, 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)		**2017**	**2016**
A	Cash and cash equivalents	(803)	(931)
B	Cash at bank	(88,791)	(44,236)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(89,594)**	**(45,167)**
E	**Current financial receivables**	**(2,327)**	**(3,495)**
F	Current loans	53,014	50,870
G	Current portion of non-current loans	24,259	24,952
H	Other current financial payables	1,459	1,608
I	**Current indebtedness (F+G+H)**	**78,731**	**77,430**
J	**Net current indebtedness (I+E+D)**	**(13,190)**	**28,768**
K	Non-current medium/long-term loans	201,453	189,393
L	Issued bonds	-	-
M	Other non-current financial payables	2,692	2,724
N	**Non-current indebtedness (K+L+M)**	**204,145**	**192,117**
O	**Net financial indebtedness (J+N)**	**190,955**	**220,885**

The table below shows the reconciliation between net financial indebtedness at December 31, 2016 and 2017:

(in thousands of Euro)	**Cash and cash equivalents**	**Current financial receivables**	**Current financial indebtedness**	**Non-current financial indebtedness**	**Total**
Net financial indebtedness at December 31, 2016	**(45,167)**	**(3,495)**	**77,430**	**192,117**	**220,885**
Cash flows	(47,032)	810	-	-	**(46,222)**
Proceeds from long-term borrowings	-	-	5,961	61,472	**67,433**
Repayment of long-term borrowings	-	-	(28,972)	(23,285)	**(52,257)**
(Decrease)/increase in short-term loans and borrowings	-	-	1,811	-	**1,811**
Currency effect	2,605	358	(362)	(3,654)	**(1,053)**
Reclassifications	-	-	22,749	(22,749)	**-**
Other non-monetary items	-	-	114	244	**358**
Net financial indebtedness at December 31, 2017	**(89,594)**	**(2,327)**	**78,731**	**204,145**	**190,955**

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)	**2017**	**2016**
As at January 1	**9,268**	**9,624**
Service costs	335	420
Interest expenses	69	85
Benefits paid	(623)	(1,032)
Change in scope of consolidation	-	67
Remeasurements of employee benefits	27	80
Exchange differences	(89)	24
As at December 31	**8,987**	**9,268**

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)	**2017**	**2016**
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	2.00%	2.68%
Demographic assumptions		
Probability of resignation	7.96%	6.62%
Probability of advance payments to employees	0.81%	0.92%

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:

	Changes in assumptions (%)	Impact on employee benefits based on			
(in thousands of Euro)		**Increase in assumptions**	**Decrease in assumptions**	**Increase in assumptions**	**Decrease in assumptions**
Economic assumptions		*as at December 31, 2017*		*as at December 31, 2016*	
Inflation rate	0.50%	66	(64)	74	(71)
Discount rate	0.50%	(112)	118	(123)	131
Demographic assumptions					
Probability of resignation	0.50%	0	(0)	6	(6)
Probability of advance payments to employees	0.50%	0	(1)	6	(6)

The above sensitivity analysis is based on changes being made to individual assumptions while maintaining other assumptions constant, although it is recognized that in practice changes in a given assumption often result

in changes being made to other assumptions because of potential links. The sensitivities reported in the table above are calculated applying the same methodology used to calculate the liability included in the consolidated statement of financial position (the projected unit credit method).

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

Interest rate risk

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

Probability of retirement, termination and advance payments

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

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

(in thousands of Euro)	**Less than 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Expected benefits paid to employees at December 31, 2017	850	1,057	2,630	5,520	**10,057**
Expected benefits paid to employees as at December 31, 2016	1,082	631	2,574	6,321	**10,608**

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 8,756 thousand. This amount is not reflected in the Consolidated Financial Statements, since management does not consider it to be a probable event.

19 Other Non-Current Provisions

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

(in thousands of Euro)	**Provision for agents' termination indemnities**	**Provisions for other charges**	**Total**
As at December 31, 2016	**1,613**	**2,336**	**3,949**
Accruals	134	185	**319**
Utilizations	(201)	(970)	**(1,171)**
Releases	-	(93)	**(93)**
Exchange differences	(18)	-	**(18)**
As at December 31, 2017	**1,528**	**1,458**	**2,986**

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. The subsequent stage of the legal proceedings should see the judgement handed down by the first quarter of 2018.

According to Massimo Zanetti Beverage USA Inc. and the summoned companies, an unfavourable outcome is not probable and, at present, they cannot estimate the penalties which would apply in this case.

20 Other Current and Non-Current Liabilities

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Derivatives on interest rates	1,115	1,142
Derivatives on exchange rates	148	-
Non-current financial guarantee contracts	1,170	1,568
Other non-current liabilities	614	635
Total other non-current liabilities	**3,047**	**3,345**
Payables to personnel	10,273	10,440
Payables to social security institutions	4,120	4,311
Other tax payables	5,949	5,309
Current financial guarantee contracts	830	1,111
Advances from customers	1,395	1,011
Payables to agents	1,077	1,397
Derivatives on interest rates	178	664
Derivatives on exchange rates	2,233	-
Other current liabilities	10,229	6,328
Total other current liabilities	**36,284**	**30,571**

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

Financial guarantee contracts refer to the effects of the recognition of the financial guarantee given by the Group in favour of Claris Factor S.p.A. and MBFacta S.p.A. in relation to the loans disbursed by the latter to group customers in the form of discounted bills of exchange. Such guarantees are part of a broader business arrangement with customers, and in particular with bars in Italy. At December 31, 2017, total loans disbursed to customers by Claris Factor SpA and covered by group guarantees, amounted to Euro 12,966 thousand (Euro 14,795 thousand at December 31, 2016). The Group monitors repayment of loans covered by such guarantees to evaluate and manage its exposure.

21 Revenue

The following table sets forth a breakdown of revenue for the years ended December 31, 2017 and 2016, the trends of which are illustrated in the Management Report. They mainly relate to product sales and may be analysed as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Sales of roasted coffee	848,139	812,178
Sale of regional products and other food related products	46,375	48,263
Sales of coffee machines	33,615	32,873
Revenue from café network	11,842	11,394
Other revenue	16,094	12,767
Total	**956,065**	**917,475**

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

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Mass Market	357,467	343,857
Foodservice	211,850	196,023
Private Label	325,197	320,562
Other	61,551	57,033
Total	**956,065**	**917,475**

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

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Americas	447,407	450,920
Northern Europe	183,785	171,724
Southern Europe	247,163	224,668
Asia-Pacific and Cafés*	77,710	70,163
Total	**956,065**	**917,475**

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

22 Other Income

Other income relates mainly to rental contracts.

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

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Purchases of raw materials	415,492	395,531
Purchases of finished goods	82,369	74,610
Purchases of packaging and other	60,832	61,824
Total	**558,693**	**531,965**

24 Purchases of Services, Leases and Rentals

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Advertising and promotions	46,197	42,830
Transportation costs	24,006	24,394
Agent commissions and other	21,052	18,848
Maintenance, repair and support	17,300	15,790
Leases and rentals	14,914	14,968
Utilities	13,044	13,557
Travel expenses and fuel	9,364	9,330
Consultancy and collaborations	11,052	10,135
Temporary workers	4,039	4,193
Insurance	2,752	2,807
Outsourced processing	3,433	3,494
Other services	15,987	14,708
Total	**183,140**	**175,054**

In 2017, purchases of services and leases and rentals included non-recurring costs of Euro 3,050 related to the reorganisation of Segafredo Zanetti S.p.A. and the Portuguese subsidiary Massimo Zanetti Beverage Iberia S.A.. The latter is the result of the merger of Nutricafes S.A. and Segafredo Zanetti Portugal S.A..

25 Personnel Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Wages and salaries	117,772	113,120
Social security contributions	18,951	18,562
Directors' fees	3,473	3,386
Contributions to pension funds	1,070	1,054
Other personnel-related costs	4,374	2,627
Total	**145,640**	**138,749**

In 2017, personnel costs included non-recurring costs of Euro 2,978 thousand mainly related to the reorganisation of Segafredo Zanetti S.p.A. and the Portuguese subsidiary Massimo Zanetti Beverage Iberia S.A.. The latter is the result of the merger of Nutricafes S.A. and Segafredo Zanetti Portugal S.A..

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

	Average number of employees during the year		Number of employees as at December 31,	
(no.)	**2017**	**2016**	**2017**	**2016**
Executives	115	120	112	118
Managers and white collar staff	1,859	1,759	1,893	1,825
Blue-collar workers	1,312	1,290	1,300	1,323
Total	**3,286**	**3,169**	**3,305**	**3,266**

26 Other Operating Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Indirect taxes and levies	4,187	3,941
Other costs	2,298	1,987
Accruals of provisions	226	630
Total	**6,711**	**6,558**

In 2017, other operating costs included non-recurring costs of Euro 263 thousand related to the reorganisation of Segafredo Zanetti S.p.A. and the Portuguese subsidiary Massimo Zanetti Beverage Iberia S.A.. The latter is the result of the merger of Nutricafes S.A. and Segafredo Zanetti Portugal S.A..

27 Amortization, Depreciation and Impairment

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Depreciation of property, plant and equipment	31,342	29,299
Amortization of intangible assets	5,453	4,135
Depreciation of investment property	132	103
Allowances for doubtful accounts	1,767	4,112
Total	**38,694**	**37,649**

28 Finance Income and Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Interest expense	4,878	6,378
Interest expense to related parties	1,298	1,111
Net foreign exchange gains	814	(237)
Net fair value gains on derivative financial instruments	(20)	(771)
Other finance costs	1,325	1,360
Total finance costs	**8,295**	**7,841**
Finance income	(299)	(267)
Total net finance expense	**7,996**	**7,574**

29 Income Tax Expense

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Current income tax	8,191	9,164
Deferred tax	(3,337)	1,158
Total	**4,854**	**10,322**

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

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Profit before tax	*22,964*	*27,086*
Theoretical taxes	**5,511**	**7,449**
Domestic tax rate impact	421	915
IRAP	295	426
ACE	(481)	(133)
Permanent differences and minor items	(892)	1,665
Income tax expense	**4,854**	**10,322**

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)	**2017**	**2016**
Average number of ordinary shares	34,300,000	34,300,000
Profit attributable to owners of the Parent	17,936	16,586
Basic and diluted earnings per share (in Euro)	**0.52**	**0.48**

Basic earnings per share and diluted earnings per share were the same for the years ended December 31, 2017 and 2016 as there were no dilutive options and other dilutive potential ordinary shares.

31 Commitments

Contractual commitments to third parties and related parties at December 31, 2017, not yet recognised, include contracts for the purchase of green coffee totalling Euro 221,639 thousand (Euro 219,495 thousand at December 31, 2016).

The following table provides details of commitments arising in relation to non-cancellable operating leases outstanding at December 31, 2017:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Less than 12 months	8,897	8,618
Between 1 and 5 years	20,171	23,358
Over 5 years	7,536	11,632
Total	**36,604**	**43,608**

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

(in thousands of Euro)	Parent	Subsidiaries	Third parties	Total
Guarantees				
As at December 31, 2017	39,000	7,584	12,966	59,550
As at December 31, 2016	39,000	5,633	14,795	59,428

Parent

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

Subsidiaries

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

- a guarantee in favour of United Overseas Bank Limited dated January 27, 2016 in relation to the credit lines granted by the latter to Boncafe International Pte Ltd for an amount of SGD 5,200 thousand (Euro 3,245 thousand) at December 31, 2017.
- a guarantee in favour of Intesa San Paolo S.p.A. dated May 16, 2017 in relation to the credit lines granted by the latter to Boncafe' (Hong Kong) Limited for an amount of HKD 20,000 thousand (Euro 2,134 thousand) at December 31, 2017.

Third parties

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

32 Related Party Transactions

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

The transactions with related parties described below result in benefits arising from the use of common services and shared competencies, Group-level synergies and common policy and strategy in financial matters. In particular, in 2017 and 2016, related party transactions were entered into in the following areas:

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

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

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

The following table shows the income statement effects of related party transactions in 2017 and 2016, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as at December 31, 2017 and 2016:

The following table shows the income statement effects of related party transactions in 2017 and 2016, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as at December 31, 2017 and 2016:

(in thousands of Euro)	**Controlling Parties**	**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, 2017	-	83	1,133	-	**1,216**	956,065	**0.1%**
For the year ended December 31, 2016	-	79	903	-	**982**	917,475	**0.1%**
Purchases of raw, ancillary, and consumable materials and goods							
For the year ended December 31, 2017	-	178,877	8,425	-	**187,302**	558,693	**33.5%**
For the year ended December 31, 2016	-	178,773	5,750	-	**184,523**	531,965	**34.7%**
Purchases of services, leases and rentals							
For the year ended December 31, 2017	-	467	619	-	**1,085**	183,140	**0.6%**
For the year ended December 31, 2016	-	508	388	-	**896**	175,054	**0.5%**
Personnel costs							
For the year ended December 31, 2017	-	-	-	6,215	**6,215**	145,640	**4.3%**
For the year ended December 31, 2016	-	-	-	6,364	**6,364**	138,749	**4.6%**
Finance income							
For the year ended December 31, 2017	-	-	8	-	**8**	299	**2.7%**
For the year ended December 31, 2016	-	-	3	-	**3**	267	**1.1%**
Finance costs							
For the year ended December 31, 2017	-	1,298	-	-	**1,298**	8,295	**15.6%**
For the year ended December 31, 2016	-	1,111	-	-	**1,111**	7,841	**14.2%**
Impact of transactions on statement of financial position							
Trade receivables							
As at December 31, 2017	-	145	83	-	**228**	123,405	**0.2%**
As at December 31, 2016 (*)	-	336	23	-	**359**	120,074	**0.3%**
Other non-current assets							
As at December 31, 2017	-	-	240	-	**240**	13,669	**1.8%**
As at December 31, 2016 (*)	-	-	120	-	**120**	16,036	**0.7%**
Trade payables							
As at December 31, 2017	-	36,823	80	-	**36,903**	139,329	**26.5%**
As at December 31, 2016	-	46,641	6	-	**46,647**	122,209	**38.2%**

(*) Restated figures (See Note 2.1)

The following table shows details of commitments with related parties at December 31, 2017 and 2016:

(in thousands of Euro)	**Controlling Parties**	**Entities under Common Control**	**JV and associates**	**Key Management**	**Total related parties**	**Total**	**Percentage of total**
Commitments							
As at December 31, 2017	-	73,285	-	-	**73,285**	211,639	**34.6%**
As at December 31, 2016	-	66,458	-	-	**66,458**	219,495	**30.3%**

Entities under Common Control

The following table shows the income statement effects of transactions with Entities under Common Control for 2017 and 2016, as well as the statement of financial position balances resulting from transactions with Entities under Common Control by financial statement line item at December 31, 2017 and 2016:

(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, 2017	3	17	18	9	36	**83**	956,065	**0.0%**
For the year ended December 31, 2016	1	15	18	9	36	**79**	917,475	**0.0%**
Purchases of raw, ancillary, and consumable materials and goods								
For the year ended December 31, 2017	166,896	11,981	-	-	-	**178,877**	558,693	**32.0%**
For the year ended December 31, 2016	168,359	10,414	-	-	-	**178,773**	531,965	**33.6%**
Purchases of services, leases and rentals								
For the year ended December 31, 2017	-	2	81	30	354	**467**	183,140	**0.3%**
For the year ended December 31, 2016	-	1	77	120	310	**508**	175,054	**0.3%**
Finance costs								
For the year ended December 31, 2017	1,298	-	-	-	-	**1,298**	8,295	**15.6%**
For the year ended December 31, 2016	1,111	-	-	-	-	**1,111**	7,841	**14.2%**
Impact of transactions on statement of financial position								
Trade receivables								
As at December 31, 2017	20	2	29	94	-	**145**	123,405	**0.1%**
As at December 31, 2016 (*)	217	2	22	95	-	**336**	120,074	**0.3%**
Trade payables								
As at December 31, 2017	34,763	2,058	-	2	-	**36,823**	139,329	**26.4%**
As at December 31, 2016	45,069	1,572	-	-	-	**46,641**	122,209	**38.2%**

(*) Restated figures (See Note 2.1)

The following table shows details of the Group's commitments with Entities under Common Control at December 31, 2017 and 2016, as well as their impact on the related financial statements item:

(in thousands of Euro)	**Cofiroasters SA**	**Total Entities under Common Control**	**Total**	**Percentage of total**
Commitments				
As at December 31, 2017	73,285	**73,285**	211,639	**34.6%**
As at December 31, 2016	66,458	**66,458**	219,495	**30.3%**

Cofiroasters SA and other green coffee companies

(a) Purchase of green coffee from Cofiroasters SA

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

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

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

Group purchases of green coffee from related parties account for raw material costs included in "Purchases of raw, ancillary, and consumable materials and goods" totalling Euro 166,896 thousand in 2017 (Euro 168,359 thousand in 2016).

(b) Commitments to purchase green coffee from Cofiroasters SA

In order to mitigate risks relating to the price of green coffee, Group entities make forward purchases of green coffee thereby fixing the price of future purchases. Commitments to purchase green coffee from Cofiroasters SA not recognised in the financial statements at December 31, 2017 totalled Euro 73,285 thousand (Euro 66,458 thousand at December 31, 2016).

JV and Associates

In 2017, through its subsidiary Massimo Zanetti Beverage USA Inc., the Group performed the following transactions with the associate Club Coffee:

- sale of finished goods for USD 1,032 thousand (Euro 915 thousand);
- purchases classified under "Purchases of raw, ancillary, and consumable materials and goods" for an amount of USD 9,514 thousand (Euro 8,425 thousand);
- recognition of licensing fees of USD 143 thousand (Euro 127 thousand) for the use of proprietary production processes relating to single serve as well as for intellectual property associated with 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 6,215 thousand and Euro 6,364 thousand in 2017 and 2016, 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, 2017	December 31, 2016
Massimo Zanetti Beverage S.A.	Geneva	December 31	CHF	149,900	100%	100%
Segafredo Zanetti S.p.A.	Bologna	December 31	EUR	38,800	100%	100%
La San Marco S.p.A.	Gorizia	December 31	EUR	7,000	90%	90%
Segafredo Zanetti Sarl	Geneva	December 31	CHF	20	100%	100%
Segafredo Zanetti Argentina S.A.	Buenos Aires	December 31	ARS	4,913	100%	100%
Segafredo Zanetti Australia Pty Ltd.	Sydney	December 31	AUD	4,400	100%	100%
Segafredo Zanetti Austria GmbH	Salzburg	December 31	EUR	727	100%	100%
Segafredo Zanetti Belgium S.A.	Brussels	December 31	EUR	3,892	100%	100%
Segafredo Zanetti (Brasil) Com. Distr. de Café SA	Belo Horizonte	December 31	BRL	20,184	100%	100%
Segafredo Zanetti Chile S.A.	Santiago	December 31	CLP	25,000	100%	100%
Segafredo Zanetti Coffee System S.p.A.	Treviso	December 31	EUR	6,000	100%	100%
Segafredo Zanetti CR spol.sro	Prague	December 31	CSK	9,300	100%	100%
Segafredo Zanetti Danmark Aps	Copenhagen	December 31	DKK	141	n.a.	100%
Segafredo Zanetti Deutschland GmbH	Munich	December 31	EUR	1,534	100%	100%
Segafredo Zanetti Espresso Worldwide Ltd.	Geneva	December 31	CHF	38,000	98%	98%
Segafredo Zanetti Espresso Worldwide Japan Inc.	Tokyo	December 31	YEN	100,000	98%	98%
Segafredo Zanetti France S.A.S.	Rouen	December 31	EUR	8,500	100%	100%
Segafredo Zanetti Hellas S.A.	Athens	December 31	EUR	950	100%	100%
Segafredo Zanetti Hungaria KFT	Budapest	December 31	HUF	46,630	100%	100%
Tiktak/Segafredo Zanetti Nederland BV	Groningen	December 31	EUR	18	100%	100%
Segafredo Zanetti Poland Sp.z.o.o.	Bochnia	December 31	PLN	47,615	100%	100%
Segafredo Zanetti Portugal S.A.	Porto	December 31	EUR	40,300	n.a.	100%
Segafredo Zanetti SR Spol S.r.o.	Bratislava	December 31	EUR	200	100%	100%
Segafredo Zanetti Trgovanje s kavo. d.o.o.	Ljubljana	December 31	EUR	651	100%	100%
Brodie Merlose Drysdale & CO Ltd.	Edinburgh	December 31	GBP	11	100%	100%
Brulerie des Cafés Corsica SAS	Ajaccio	December 31	EUR	152	100%	100%
Distribuidora Cafè Montaña S.A.	San Jose	December 31	CRC	304,000	100%	100%
El Barco Herrumdrado S.A.	San Jose	December 31	CRC	10	100%	100%
Massimo Zanetti Beverage U.S.A. Inc.	Suffolk	December 31	USD	73,641	100%	100%
Meira Eesti Oü	Tallin	December 31	EUR	15	100%	100%
Meira Oy Ltd.	Helsinki	December 31	EUR	1,000	100%	100%
Puccinos Worldwide Ltd	Edinburgh	December 31	GBP	0	100%	100%
Massimo Zanetti Beverage Mexico SA de CV	Mazatlán	December 31	MXN	1,806	50%	50%
MZB Cafes USA Inc	Suffolk	December 31	USD	0	100%	100%
Kauai Coffee Company LLC	Hawaii	December 31	USD	0	100%	100%
Massimo Zanetti Beverage Food Services LLC	Wilmington	December 31	USD	0	100%	100%
Coffee Care (South West) Ltd	Weddmore	December 31	GBP	0	n.a.	50%
Segafredo Zanetti New Zealand Ltd	Auckland	December 31	NZD	0	100%	100%
Segafredo Zanetti Croatia d.o.o.	Zagreb	December 31	HRK	1,850	100%	100%
Massimo Zanetti Beverage Vietnam Company Ltd	Ben Cat district - Binh Duong	December 31	VND	21,000,000	100%	100%
Segafredo Zanetti (Thailand) Ltd	Bangkok	December 31	THB	15,300	100%	100%
Boncafe International Pte Ltd	Singapore	December 31	SGD	18,710	100%	100%
Boncafe (Cambodia) Ltd	Phnom Penh	December 31	KHR	108,000	100%	100%
Boncafe (M) Sendirian Berhad	Kuala Lumpur	December 31	MYR	200	100%	100%
Boncafe (East Malaysia) Sdn Bhd	Kota Kinabalu	December 31	MYR	0	n.a.	100%
Six Degrees Cafè Pte Ltd	Singapore	December 31	SGD	0	100%	100%
BeanToCup (Thailand) Ltd	Bangkok	December 31	THB	4,000	100%	100%
Boncafe Middle East Co LLC	Dubai	December 31	AED	300	100%	100%
Boncafe (Thailand) Ltd	Bangkok	December 31	THB	150,000	100%	100%

Company	Registered office	Reporting date	Share capital		Percentage held as at	
			Currency	Amount (000)	December 31, 2017	December 31, 2016
Massimo Zanetti Beverage (Thailand) Ltd	Bangkok	December 31	THB	30,000	100%	100%
Boncafe (Hong Kong) Ltd	Hong Kong	December 31	USD	500	100%	100%
Segafredo Zanetti Grandi Eventi Srl	Bologna	December 31	EUR	20	100%	100%
MZB Services S.r.l.	Municipiul Brasov	December 31	RON	1	51%	51%
Boncafe Vietnam Company Ltd	Thuan An	December 31	VND	12,268,000	100%	100%
Massimo Zanetti Beverage USA (Canada), Inc.	Suffolk	December 31	USD	0	100%	100%
Massimo Zanetti Beverage Canada Investment ULC	Vancouver	December 31	CAD	0	100%	100%
Club Coffee LP	Toronto	April 25	CAD	4,000	15%	15%
Massimo Zanetti Beverage Iberia S.A.	Lisbon	December 31	EUR	40,000	100%	100%
Virtus pallacanestro Bologna SSD a.r.l.	Bologna	June 30	EUR	2,101	40%	n.a.
PT Bon cafe Indonesia	Jakarta	December 31	IDR	2,525,000	67%	n.a.

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

	For the year ended December 31,			
(in thousands of Euro)	**2017**	***of which related parties***	**2016**	***of which related parties***
Revenue	956,065	1,216	917,475	982
Other income	8,560		7,270	
Purchases of raw, ancillary, and consumable materials and goods	(558,693)	(187,302)	(531,965)	(184,523)
Purchases of services, leases and rentals	(183,140)	(1,085)	(175,054)	(896)
Personnel costs	(145,640)	(6,215)	(138,749)	(6,364)
Other operating costs	(6,711)		(6,558)	
Amortization, depreciation and impairment	(38,694)		(37,649)	
Operating profit	**31,747**		**34,770**	
Finance income	299	8	267	3
Finance costs	(8,295)	(1,298)	(7,841)	(1,111)
Share of losses of companies accounted for using the equity method	(787)		(110)	
Profit before tax	**22,964**		**27,086**	
Income tax expense	(4,854)		(10,322)	
Profit for the year	**18,110**		**16,764**	
Profit attributable to:				
Non-controlling interests	*174*		*178*	
Owners of the parent	*17,936*		*16,586*	
Basic and diluted earnings per share (in Euro)	**0.52**		**0.48**	

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

	As at December 31,			
(in thousands of Euro)	**2017**	*of which related parties*	**2016 ***	*of which related parties*
Intangible assets	183,231		190,943	
Property, plant and equipment	212,830		220,173	
Investment properties	4,887		4,319	
Investments in joint venture	9,616		10,943	
Non-current trade receivables	3,076		4,129	
Deferred tax assets	10,244		10,279	
Other non-current assets	13,669	240	16,036	120
Total non-current assets	**437,553**		**456,822**	
Inventories	127,997		132,858	
Trade receivables	123,405	228	120,074	359
Income tax assets	1,975		1,611	
Other current assets	18,195	-	22,014	-
Cash and cash equivalents	89,594		45,167	
Total current assets	**361,166**		**321,724**	
Total assets	**798,719**		**778,546**	
Share capital	34,300		34,300	
Other reserves	98,162		124,738	
Retained earnings	166,443		149,057	
Total equity attributable to owners of the Parent	**298,905**		**308,095**	
Non-controlling interests	1,977		1,849	
Total equity	**300,882**		**309,944**	
Non-current borrowings	204,145		192,117	
Employee benefits	8,987		9,268	
Other non-current provisions	2,986		3,949	
Deferred tax liabilities	22,895		29,069	
Other non-current liabilities	3,047		3,345	
Total non-current liabilities	**242,060**		**237,748**	
Current borrowings	78,731		77,430	
Trade payables	139,329	36,903	122,209	46,647
Income tax liabilities	1,433		644	
Other current liabilities	36,284		30,571	
Total current liabilities	**255,777**		**230,854**	
Total liabilities	**497,837**		**468,602**	
Total equity and liabilities	**798,719**		**778,546**	

(*) Restated figures (See Note 2.1)

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)	**2017**	*of which related parties*	**2016(*)**	*of which related parties*
Profit before tax	**22,964**		**27,086**	
Adjustments for:				
Amortization, depreciation and impairment	38,694		37,649	
Provisions for employee benefits and other charges	561		1,050	
Net Finance expenses	7,996	1,290	7,574	1,111
Other non-monetary items	3,667		(782)	
Net cash generated from operating activities before changes in net working capital	**73,882**		**72,577**	
Changes in inventories	(1,811)		6,913	
Changes in trade receivables	(8,699)	131	4,620	(241)
Changes in trade payables	23,011	(9,032)	33,640	32,825
Changes in other assets/liabilities	(1,351)	(120)	(15,727)	(80)
Payments of employee benefits	(623)		(1,032)	
Interest paid	(6,477)	(1,298)	(6,736)	(370)
Income tax paid	(6,029)		(7,753)	
Net cash generated from operating activities	**71,903**		**86,502**	
Acquisition of subsidiary, net of cash acquired	(2,583)		(39,292)	
Acquisition under common control, net of cash acquired	-	-	(2,624)	(2,624)
Purchase of property, plant and equipment	(35,394)		(29,106)	
Purchase of intangible assets	(1,222)		(1,698)	
Proceeds from sale of property, plant and equipment	1,699		1,266	
Changes in financial receivables	6		55	
Investments in joint ventures and associates	(777)		(10,139)	
Changes in financial receivables	1,575		(3,403)	
Interest received	143		32	
Net cash used in investing activities	**(36,553)**		**(84,909)**	
Proceeds from long-term borrowings	67,433		154,233	
Repayment of long-term borrowings	(52,257)		(94,227)	
Increase / (decrease) in short-term borrowings	1,811		(38,929)	
Dividends paid	(5,305)		(3,211)	
Net cash generated from financing activities	**11,682**		**17,866**	
Exchange gains/(losses) on cash and cash equivalents	(2,605)		134	
Net increase (decrease) in cash and cash equivalents	**44,427**		**19,593**	
Cash and cash equivalents at the beginning of the period	45,167		25,574	
Cash and cash equivalents at the end of the period	**89,594**		**45,167**	

(*) Restated figures (See Note 2.1)

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

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

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

   of the administrative and accounting procedures for preparing the consolidated financial statements, for the year ended December 31, 2017.

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, 2017 was based on a process defined by Massimo Zanetti Beverage Group S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally- accepted reference framework.

3. The undersigned further certify that:

   3.1 the consolidated financial statements:

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

   b) reflect the accounting books and records; and

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

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

Villorba (TV), February 28, 2018

Massimo Zanetti
Chairman and Chief Executive Officer

Leonardo Rossi
Manager in Charge of the Company's Financial Reports

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

Independent auditor's report

in accordance with article 14 of Legislative Decree n° 39 of 27 January 2010 and article 10 of Regulation (EU) n° 537/2014

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Massimo Zanetti Beverage Group SpA (the Group), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income and the statement of changes in equity, the statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/05.

Basis for Opinion

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

Key Audit Matters

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

PricewaterhouseCoopers SpA

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

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverable amount of indefinite-lived intangible assets *Note 7 to the consolidated financial statements*	
The consolidated financial statements of Massimo Zanetti Beverage Group SpA include indefinite-lived intangible assets, which are not amortized, but are tested for impairment at least annually. They comprise goodwill for an amount of Euro 114,438 thousand. For the purposes of verifying the recoverability of indefinite-lived intangible assets, the Group's net assets were allocated to the following cash-generating units (CGUs): Americas, Northern Europe, Southern Europe and Asia Pacific and Cafès. These CGUs were redefined compared to the previous year following the changes made in the organizational structure during 2017. For the purposes of determining value in use, management applied the Discounted Cash Flow method, according to which the recoverable amount (enterprise value) of an entity or CGU derives from the sum of the present value of the expected cash flows for the explicit years (2018-2020) and of the terminal value determined by applying to the last year of the plan a long-term growth rate ("g-rate") that is specific to each CGU and represents the expected long-term inflation rate in the countries in which the CGU operates. As part of our audit of the consolidated financial statements as at 31 December 2017, we focused on this area in view of the materiality of the amounts involved and the fact that the recoverability of these values was verified by the directors through estimations of the expected future cash flows for the Group and for each CGU. The discount rates applied to the expected future cash flows	As part of our audit of the consolidated financial statements as of 31 December 2017, we performed the following procedures. We obtained the impairment tests prepared by management with the assistance of an independent expert and approved by the Board of Directors of Massimo Zanetti Beverage Group SpA. We understood the reasons underlying the changes to the structure of the CGUs compared to last year, verified the absence of indicators of impairment and verified the correct identification of the CGUs by management. We verified the mathematical accuracy of the calculations underlying the test and the net invested capital values of the CGUs identified as of 31 December 2017 and used for comparisons with the values in use. We evaluated the reasonableness of the estimated future cash flows used in the impairment test, specifically verifying their consistency with the projections in the business plan submitted to the Board of directors on 23 February 2018 and the reasonableness of the assumptions used, in light of the past results of each CGU and the Group. With the support of PwC network specialists experienced in valuation, we verified that the methodology used was consistent with valuation practice and in particular with the

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
(weighted average cost of capital – "WACC") were also estimated.	requirements of International Accounting Standard IAS 36 adopted by the European Union. In addition, we assessed for reasonableness the main financial parameters used. With specific reference to the WACC calculation method, we verified that they had been determined according to common best practices and based on market rates. Similarly, the calculations of long-term growth rates were assessed as consistent with the requirements of the International Financial Reporting Standards adopted by the European Union.
Purchases of green coffee from related parties *Note 32 to the consolidated financial statements* The Group purchases green coffee, the main raw material for the production of the finished good, from companies under common control by the majority shareholder M. Zanetti Industries SA. In particular, the Group purchases of green coffee from Cofiroasters SA and other companies belonging to the Green Coffee Group in the year 2017 accounted for raw material costs included in "Purchases of raw, ancillary, and consumable materials and goods" totalling Euro 178,877 thousand, while outstanding payables to those companies, included under " Trade payables ", amounted to Euro 36,821 thousand as at 31 December 2017. Cofiroasters SA purchases green coffee from producers, sells it to both Group entities and other customers, and organizes the transport of green coffee from production locations to destination ports or directly to roasting plants. Group purchases of green coffee from Cofiroasters SA are based on individual orders placed by individual companies as required by the "European contract for Coffee" as adopted by the European Coffee Federation.	As part of our audit of the consolidated financial statements as at 31 December 2017, we performed the following procedures. We understood and evaluated the controls performed by the Company in order to conclude that transactions with related parties are conducted under normal market terms and conditions. In particular, we obtained and discussed the reports of the Internal Audit function on this topic, which include a comparison of the prices charged by Cofiroasters SA to the Group with those charged by other possible suppliers. We examined the minutes of the governance bodies, which report the procedures performed and the conclusions reached and included in the disclosures provided in the notes to the financial statements. We also requested a specific written representation to confirm those conclusions. We verified that the margin (revenues less cost of goods sold) of Cofiroasters SA, as reported in the latest available financial statements, was maintained within the range

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
In view of the materiality of these transactions, which accounted for around 32% of total purchases of raw, ancillary, and consumable materials and goods, the verification of the disclosure concerning the fact that such purchases are conducted under normal market terms and conditions was considered a key matter in the audit of the 2017 consolidated financial statements.	that the Group believes ensures the application of a selling price under normal market terms and conditions. We also had talks with the management of the related party in order to confirm that the margins of Cofiroasters SA relating to the year 2017 were in line with those of the previous year.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Massimo Zanetti Beverage Group SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

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

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

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

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

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

Additional Disclosures required by Article 10 of Regulation (EU) n° 537/2014

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

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) n° 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree n° 39/10 and Article 123-bis, paragraph 4, of Legislative Decree n° 58/98

Management of Massimo Zanetti Beverage Group SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the MZB Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) n° 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree n° 58/98, with the consolidated financial statements of the Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Massimo Zanetti Beverage Group SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree n° 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree n° 254 of 30 December 2016

Management of Massimo Zanetti Beverage Group SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree n° 254 of 30 December 2016.

We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree n° 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Treviso, 16 March 2018

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, 2017

Income Statement

(in Euro)	Note	For the year ended December 31, 2017	2016
Revenue	**16**	8,143,255	6,607,237
Other income		42,608	187,571
Purchases of raw, ancillary, and consumable materials and goods		(53,761)	(48,759)
Purchases of services, leases and rentals	**17**	(2,093,696)	(4,503,028)
Personnel costs	**18**	(5,452,577)	(5,368,432)
Other operating costs	**19**	(200,101)	(167,442)
Amortization, depreciation and impairment	**20**	(707,732)	(636,793)
Operating profit		**(322,004)**	**(3,929,646)**
Finance income	**21**	9,585,224	13,077,269
Finance costs	**21**	(3,684,503)	(1,860,850)
Profit (loss) before tax		**5,578,717**	**7,286,773**
Income tax expense	**22**	1,142,179	922,059
Profit for the year		**6,720,896**	**8,208,832**

Statement of Comprehensive Income

(in Euro)	Note	For the year ended December 31,	
		2017	**2016**
Profit for the year		**6,720,896**	**8,208,832**
Remeasurements of employee benefit obligations	**14**	(12,276)	(10,606)
Items that will not be reclassified to profit or loss		**(12,276)**	**(10,606)**
Total comprehensive income for the year		**6,708,620**	**8,198,226**

Statement of Financial Position

	Note	As at December 31,	
(in Euro)		2017	2016
Intangible assets	**5**	681,683	478,381
Property, plant and equipment	**6**	13,526,130	13,853,078
Investments in subsidiaries	**8**	259,369,702	248,175,077
Deferred tax assets	**9**	3,923,324	3,356,506
Non-current financial receivables	**7**	41,524,114	56,448,355
Total non-current assets		**319,024,953**	**322,311,397**
Income tax assets		1,456,971	1,224,409
Current financial receivables	**7**	7,477,390	6,023,255
Other current assets	**10**	1,510,563	1,776,711
Cash and cash equivalents	**11**	32,327,936	18,695,772
Total current assets		**42,772,860**	**27,720,147**
Total assets		**361,797,813**	**350,031,544**
Share capital		34,300,000	34,300,000
Other reserves		108,761,850	113,496,408
Retained earnings		15,067,742	8,769,564
Total equity	**12**	**158,129,592**	**156,565,972**
Non-current borrowings	**13**	168,215,263	155,843,607
Employee benefits	**14**	300,991	260,755
Deferred tax liabilities	**9**	30,941	31,941
Other non-current liabilities	**15**	1,114,959	1,142,004
Total non-current liabilities		**169,662,154**	**157,278,307**
Current borrowings	**13**	28,090,225	29,942,529
Trade payables		797,883	874,043
Other current liabilities	**15**	5,117,959	5,370,693
Total current liabilities		**34,006,067**	**36,187,265**
Total liabilities		**203,668,221**	**193,465,572**
Total equity and liabilities		**361,797,813**	**350,031,544**

Statement of Cash Flows

(in Euro)	Note	For the year ended December 31, 2017	2016
Profit (loss) before tax		5,578,717	7,286,773
Adjustments for:			
Amortization, depreciation and impairment	**20**	707,732	636,793
Net finance income	**21**	(5,900,721)	(11,216,419)
Other non-monetary items		47,399	52,000
Net cash generated/(used in) from operating activities before changes in net working capital		**433,127**	**(3,240,853)**
Changes in trade payables		(76,160)	(1,053,930)
Changes in other assets/liabilities	**10-15**	202,946	5,071,357
Payments of employee benefits	**14**	(26,983)	(51,935)
Interest paid		(2,314,880)	(1,648,657)
Income tax paid		-	-
Net cash used in operating activities		**(1,781,950)**	**(924,018)**
Investments in subsidiaries	**8**	(1,000,000)	(68,108,223)
Dividends received	**21**	8,235,045	8,784,742
Purchase of intangible assets	**5**	(378,354)	(228,567)
Purchase of property, plant and equipment	**6**	(205,732)	(1,330,782)
Interest received		1,466,927	1,376,490
Changes in financial receivables	**7**	1,921,876	(26,130,106)
Net cash generated from/(used in) investing activities		**10,039,762**	**(85,636,446)**
Proceeds from long-term borrowings	**13**	30,000,000	149,000,000
Repayment of long-term borrowings	**13**	(19,590,736)	(35,030,530)
Decrease in short-term loans	**13**	110,088	(6,664,906)
Share capital increase	**12**	-	-
Dividends paid	**12**	(5,145,000)	(3,087,001)
Net cash generated from financing activities		**5,374,352**	**104,217,563**
Total net increase in cash and cash equivalents		**13,632,164**	**17,657,099**
Cash and cash equivalents at the beginning of the year	**11**	18,695,772	1,038,673
Cash and cash equivalents at the end of the year		**32,327,936**	**18,695,772**

Statement of Changes in Equity

(in Euro)	Share capital	Other reserves	Retained earnings	Total equity
As at December 31, 2015	**34,300,000**	**116,566,302**	**588,445**	**151,454,747**
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)	-
Dividend distribution	-	(3,087,001)	**-**	(3,087,001)
As at December 31, 2016	**34,300,000**	**113,496,408**	**8,769,564**	**156,565,972**
Profit for the year		**-**	6,720,896	6,720,896
Remeasurements of employee benefit obligations		-	(12,276)	(12,276)
Total comprehensive income for the year	**-**	**-**	**6,708,620**	**6,708,620**
Reclassifications		410,442	(410,442)	-
Dividend distribution		(5,145,000)	**-**	**(5,145,000)**
As at December 31, 2017	**34,300,000**	**108,761,850**	**15,067,742**	**158,129,592**

Notes to the Separate Financial Statements

1 General information

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

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

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

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

2 Accounting policies

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

2.1. Basis of Preparation

The separate financial statements as at and for the year ended December 31, 2017 ("**Separate Financial Statements**"), approved by the Company's Board of Directors on February 28, 2018, 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 recognised in the income statement for the year, as required or allowed by IFRS, such as changes in the hedging reserve, in the actuarial reserve and in the translation reserve;

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

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

2.2. Accounting Policies

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

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

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

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

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

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

At each reporting date, the 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 the allowance for impairment. They are classified as current assets, except in those cases where the contractual duration at the reporting date exceeds twelve months, in which case they are classified as non-current assets.

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

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

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

Cash and cash equivalents

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

Borrowings and other financial liabilities

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

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

Derivative instruments

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

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

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

Employee benefits

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

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

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

Provisions for risks and charges

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

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

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

Trade payables and other liabilities

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

Revenue recognition

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

Taxation

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

The Group's Italian entities are members of a domestic tax group established pursuant to Decree 344/2003. This law recognises the combined taxable income of the 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 recognised, to the extent not offset by deferred tax liabilities, if it is probable that they will be recovered against future taxable income. Deferred tax assets and liabilities are determined using the tax rates, enacted or substantially enacted at the reporting date, expected to apply in the years in which the related temporary differences reverse or expire.

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

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

2.3. Recently-Issued Accounting Standards

Accounting standards, amendments and interpretations adopted by the Company as of January 1, 2017

The following accounting standards and amendments have been adopted by the Company with effect from January 1, 2017:

- Amendments to IAS 12 - *Income taxes*. The IASB clarifies how to account for deferred tax assets related to unrealised losses on debt instruments measured at fair value which result in a temporary difference deductible when the owner of the debt instrument expects to hold it to maturity.
- Amendments to IAS 7 - *Statement of Cash Flows*. The improvements cover the disclosure about changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). The statement of cash flows was adjusted to the new requirements and a reconciliation of the opening and closing balances of the liabilities arising from financing activities was provided.

The adoption of the above amendments did not have a significant impact on the Separate Financial Statements.

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

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

- *IFRS 9 "Financial Instruments"*. On July 24, 2014, the IASB completed the revision of the standard governing financial instruments with the publication of the final version of IFRS 9 - "Financial Instruments" ("IFRS 9"). The new provisions set out in IFRS 9:
    - change the classification and measurement requirements for financial assets;
    - incorporate a new expected loss impairment model which considers expected credit losses; and
    - change hedge accounting provisions.

  IFRS 9, which was endorsed by the European Commission with Regulation (EU) no. 2016/2067 of November 22, 2016, is effective for annual periods beginning on or after January 1, 2018. Management has substantially completed the analysis of the Company's financial assets and liabilities and essentially concluded, with respect to the impact of the new standard as of January 1, 2018, there will not be any significant impact.

- *IFRS 15 "Revenue from Contracts with Customers"*. On May 28, 2014, the IASB published IFRS 15 - "Revenue from Contracts with Customers" ("IFRS 15"), which specifies when recognising and how to calculate the amount of the revenue from contracts with customers, including contract work in progress. Specifically, under IFRS 15, revenue is recognised based on the following five-step model framework:
    - identify the contract(s) with a customer;
    - identify the performance obligations in the contract;
    - determine the transaction price;
    - allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices;
    - recognise revenue when (or as) the entity satisfies a performance obligation.

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

  IFRS 15, which was endorsed by the European commission with Regulation (EU) no. 2016/1905 of September 22, 2016, is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. After considering the effects of the application of the new standard on the Company's financial statements, Management concluded that IFRS 15 is not expected to have an impact on the nature and the accounting policies currently applied by the Company to revenue.
- *Clarifications on IFRS 15 "Revenue from Contracts with Customers"*. This document, which was published by the IASB on April 12, 2016, clarifies some issues about the implementation of IFRS 15 - "Revenue from Contracts with Customers" ("IFRS 15")..

  The amendments to IFRS 15 are applicable for annual periods beginning on or after January 1, 2018.

They were endorsed by the European Union on October 31, 2017.

This new revenue-recognition standard is based on the principle that revenue shall be recognised when control over goods or services is transferred to the customer. For information about the analysis carried out by the Company, reference should be made to that already set out in the note IFRS 15 “Revenue from Contracts with Customers”.

- *IFRS 16 “Leases”.* On January 13, 2016, the IASB published IFRS 16 “Leases” (“IFRS 16”) which replaces IAS 17 “Leases” and the related interpretations. IFRS 16 eliminates the difference between operating and finance leases for the purposes of lessees’ financial statements preparation. For all leases with a term of more than 12 months, companies shall recognise a right-of-use assets and a liability related to the lease payments. Conversely, for the purposes of lessors’ financial statements preparation, the difference between operating and finance leases is maintained. IFRS 16 strengthens disclosures for both lessors and lessees.

  IFRS 16 is effective from January 1, 2019. Earlier application is permitted if IFRS 15 has also been applied.

  IFRS 16 was endorsed by the European Union on October 31, 2017.

  Management does not anticipate significant economic or financial impact for the Company, considering the existence of just a few rent contracts for cars and office equipment.

- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. This amendment, which will be applicable for annual periods beginning on or after January 1, 2018, addresses concerns about issues arising from implementing IFRS 9, Financial Instruments, before the new insurance contracts standard comes into effect. It provides two options for entities that issue insurance contracts within the scope of IFRS 4: *i)* an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; *ii)* an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. The provisions introduced by the coming into force of this standard are not expected to have any financial impact on the Company.

- *Annual Improvements to IFRSs: 2014-2016 Cycle* They are part of the annual improvement process and will be applicable for annual periods beginning on or after January 1, 2018. The process covered the following: deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose; clarified the scope of IFRS 12 by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5; clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The provisions introduced by the coming into force of this standard are not expected to have any financial impact on the Company.

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

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

- *Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”.* This amendment, which was published by the IASB on June 20, 2016, clarifies the accounting for cash-settled share-based payment transactions and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Furthermore, this document introduces an exception to IFRS 2 so that a share-based payment is classified as equity-settled in its entirety when the employer is required to withhold an amount for an employee’s tax obligation to be paid to the tax authorities.

  The amendments are applicable for annual periods beginning on or after January 1, 2018. Early application is permitted. The provisions introduced by the coming into force of this standard are not expected to have any financial impact on the Company.

- *Amendments to IAS 40 "Transfers of Investment Property".* These amendments, which were published by the IASB on December 8, 2016, clarify that the transfers into, or out of, investment property should only be made when there is evidence of a change in use. Therefore, a change of use occurs if the property meets, or ceases to meet, the definition of investment property. This change must be supported by evidence.

  The amendments are applicable for annual periods beginning on or after January 1, 2018. The provisions introduced by the coming into force of this interpretation are not expected to have any financial impact on the Company.

- *IFRIC 22 "Foreign currency transactions and advance consideration".* This interpretation, which was published by the IASB on December 8, 2016, clarifies the accounting for foreign currency transactions or parts of transactions whose consideration is expressed in a foreign currency. It provides guidance for transactions involving one single payment/receipt as well as for those comprising more payments/receipts. The aim of the interpretation is to reduce the use of inconsistent methods.

  It is applicable for annual periods beginning on or after January 1, 2018. The provisions introduced by the coming into force of this interpretation are not expected to have any financial impact on the Company.

- *IFRIC 23 "Uncertainty over Income Tax Treatments".* On June 7, 2017, the IASB published IFRIC 23 "*Uncertainty over Income Tax Treatments*", which provides guidance about the recognition of current and/or deferred tax assets and liabilities related to income taxes, when there is uncertainty over income tax treatments under the applicable tax legislation.

  IFRIC 23 provisions are effective for annual periods beginning on or after January 1, 2019.

- *Amendments to IFRS 9 "Prepayment Features with Negative Compensation".* On October 12, 2017, the IASB published this amendment to IFRS 9 which addresses some issues concerning the application and classification under IFRS 9 "Financial Instruments" of particular prepayable financial assets. In addition, the IASB clarifies an aspect of the accounting for financial liabilities following a modification.

  The amendment to IFRS 9 is effective for annual periods beginning on or after January 1, 2019.

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

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

  IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

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

2.4. Significant Non-Recurring Events and Transactions

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

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

In 2016, the Company's results were influenced by the financial resources that the Company provided to its subsidiary Massimo Zanetti Beverage S.A. to give it and its subsidiaries the funds needed to complete the acquisition of Nutricafés S.A. ("**Nutricafés**"), as well as a non-controlling interest in Club Coffee LP ("**Club Coffee**").

3 Management of Financial Risks

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

The Company's risk management strategy focuses on minimizing potential adverse effects on the Company's financial performance. Certain types of risk are mitigated by using derivative instruments. Risk management is centralised with 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 an operational viewpoint, the instruments used by the Company are deemed of a hedging nature.

The notional value of the interest rate swaps outstanding at December 31, 2017 totalled Euro 90,833 thousand (Euro 20,700 thousand at December 31, 2016). The interest rate swaps outstanding at December 31, 2017 had a negative fair value of Euro 1,293 thousand (negative fair value of Euro 1,748 thousand at December 31, 2016).

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

The Company's non-current borrowings bore floating rates of interest as at December 31, 2016 and 2015. After considering the impact of interest rate swaps, the exposure to floating interest rate risk was reduced to 45% and 88% respectively at December 31, 2017 and 2016.

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 832 thousand in 2017 and Euro 1,490 thousand in 2016.

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 2017 includes net foreign exchange losses of Euro 1,354 thousand (net foreign exchange gains of Euro 677 thousand in 2016).

An increase/(decrease) of 1% (100 basis points) in Euro/USD exchange rates compared to those applicable as at December 31, 2017 and 2016, with all other variables remaining unchanged, would have resulted in a (decrease)/increase in profit before taxation for the year of Euro (87)/89 thousand in 2017 and (decrease)/increase of Euro (207)/211 thousand in 2016.

Liquidity risk

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

At December 31, 2017, the Company had credit lines totalling Euro 16,000 thousand (Euro 16,000 thousand at December 31, 2016), 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, 2017 and 2016:

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

As at December 31, 2016 *(in thousands of Euro)*	**Carrying amount**	**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**

Capital risk

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

Financial assets and liabilities by category

Trade receivables and other financial assets, trade payables, other payables and other financial liabilities classified as "current" in the statement of financial position are measured at amortized cost. The fair value of such assets and liabilities is the same as the related carrying amounts in the Separate Financial Statements at December 31, 2017 and 2016, as they primarily relate to balances generated by normal business that will be settled in the short term.

The following tables set forth an analysis of the Group's financial assets and liabilities by category at December 31, 2017 and 2016:

As at December 31, 2017 *(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	49,002	-	**49,002**	-	**49,002**
Other current assets	1,345	-	**1,345**	166	**1,511**
Cash and cash equivalents	32,328	-	**32,328**	-	**32,328**
Total assets	**82,675**	**-**	**82,675**	**166**	**82,841**
Liabilities					
Current and non-current borrowings	196,305		**196,305**	-	**196,305**
Trade payables	798		**798**	-	**798**
Other Current and Non-Current Liabilities	873	1,293	**2,166**	4,067	**6,233**
Total liabilities	**197,976**	**1,293**	**199,269**	**4,067**	**203,336**

As at 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**

Fair value

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

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

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

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

Derivatives on interest rates *(in thousands of Euro)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities at December 31, 2017	-	1,293	-	**1,293**
Liabilities at December 31, 2016	-	1,748	-	**1,748**

The fair value of derivative instruments at December 31, 2017 and 2016 is measured in accordance with Level 2.

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

There were no changes in measurement techniques during the years ended December 31, 2017 and 2016. Similarly, there were no changes in the valuation techniques used. Decisions to classify financial instruments in terms of Level 2 or Level 3 are taken at each balance sheet date for financial reporting purposes.

4 Use of Estimates and Assumptions

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

(a) Impairment of assets

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

(b) Amortization and depreciation

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

(c) Taxation

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

recoverability of deferred tax assets, which are recognized in relation to both tax loss carryforwards and deductible temporary differences, takes account of estimated future taxable income and is based on prudent tax planning.

5 Intangible Assets

The item can be broken down as follows:

(in thousands of Euro)	**Software, licences and other immaterial assets**	**Asset under development**	**Total**
As at December 31, 2015	**63**	**318**	**381**
Of which:			
- historical cost	*521*	*318*	***839***
- accumulated depreciation	*(458)*	-	***(458)***
Capital expenditure	228	-	**228**
Disposals	-	-	**-**
Reclassifications	318	(318)	**-**
Amortization	(131)	-	**(131)**
As at December 31, 2016	**478**	**-**	**478**
Of which:			
- historical cost	*1,067*	-	***1,067***
- accumulated depreciation	*(589)*	-	***(589)***
Capital expenditure	309	70	***379***
Disposals	-	-	**-**
Amortization	(175)		***(175)***
As at December 31, 2017	**612**	**70**	**682**
Of which:			
- historical cost	1,376	70	**1,446**
- accumulated depreciation	(764)	-	**(764)**

6 Property, Plant and Equipment

The item can be broken down as follows:

(in thousands of Euro)	**Land and buildings**	**Plant and machinery**	**Other**	**Total**
As at December 31, 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)
Capital expenditure	2,105	63	177	**2,345**
Disposals	-	-	(2)	***(2)***
Amortization	(289)	(73)	(144)	***(506)***
Reclassifications	-	1	(1)	**-**
As at December 31, 2016	**11,203**	**408**	**2.242**	**13,853**
Of which:				
- historical cost	*13,109*	*1.095*	*3,084*	17,288
- accumulated depreciation	*(1,906)*	*(687)*	*(842)*	(3,435)
Capital expenditure	32	35	139	**206**
Disposals	-	-	-	**-**
Amortization	(289)	(78)	(166)	***(533)***
Reclassifications	-	-	-	**-**
As at December 31, 2017	**10.946**	**365**	**2.215**	**13,526**
Of which:				
- historical cost	*13,142*	*1,129*	*3,223*	*17,494*
- accumulated depreciation	*(2,196)*	*(764)*	*(1,008)*	*(3,968)*

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

2016 investments in land and buildings amount to Euro 2,105 thousand and mainly refer to an office building next to the above-mentioned headquarter, held as a finance lease, as a consequence of the strengthening of the management structure of the Parent.

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, 2017 and 2016:

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, 2017	7,477	34,245	7,279	**49,001**
As at December 31, 2016	6,023	51,679	4,769	**62,471**

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

Interest rate	**Year**	**Counterparty**	**Currency**	**Initial principal amount**	**As at December 31,**	
					2017	**2016**
				(in thousands)	*(in thousands of Euro)*	
Libor 3M + 3%	2014	Boncafe International Pte Ltd	USD	21,366	7,452	19,199
Libor 3M + 3%	2014	MZB (Thailand) Ltd	THB	83,275	1,359	1,702
7.26%	2015	Meira Oy Ltd.	EUR	16,416	11,970	13,600
Euribor 3M + 1.5%	2016	Massimo Zanetti Beverage S.A.	EUR	29,620	25,270	27,970
1.20%	2017	Segafredo Zanetti Australia Pty Ltd.	EUR	1,700	1,700	-
1.20%	2017	Boncafe International Pte Ltd	EUR	1,300	1,250	-
Total					**49,001**	**62,471**
of which non-current					*41,524*	*56,448*
of which current					*7,477*	*6,023*

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

8 Investments in Subsidiaries

The item can be broken down as follows:

(in thousands of Euro)	**As at December 31, 2015**	**Increase/ (Decrease)**	**As at December 31, 2016**	**Increase/ (Decrease)**	**As at December 31, 2017**
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	68,108	155,505	1,000	156,505
Segafredo Zanetti Coffe System SpA	3,341	-	3,341	-	3,341
Massimo Zanetti Beverage (Thailand) Ltd	339	-	339	-	339
Boncafe International Pte Ltd	43,670	-	43,670	10,195	53,865
Total	**180,067**	**68,108**	**248,175**	**11,195**	**259,370**

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

The Euro 68,108 thousand increase recorded by Massimo Zanetti Beverage SA in 2016 refers to a capital injection for future share capital increase, mainly related to the *i)* acquisition of Nutricafés 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, 2017.

As at December 31, 2017 *(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*	*43,540*	42,258	*43,540*
La San Marco SpA	90.4%	-	Gorizia	*EUR 7.000*	*22,036*	1,420	19,916
Segafredo Zanetti Espresso Worldwide Ltd	8.6%	89.1%	Geneva	*CHF 38.000*	*18,804*	1,642	1,617
Massimo Zanetti Beverage SA[(1)]	100%	-	Geneva	*CHF 149.900*	*196,956*	156,505	196,956
Segafredo Zanetti Coffe System SpA	16.7%	83.3%	Treviso	*EUR 6.000*	*9,359*	3,341	1,560
Massimo Zanetti Beverage (Thailand) Ltd	49.0%	51.0%	Bangkok	*THB 30.000*	*1,428*	339	700
Boncafe International Pte Ltd	100.0%	-	Singapore	*SGD 18.710*	*15,819*	53,865	15,819
Total						**259,370**	**280,108**

[(1)]The amount includes also other equity instruments

No impairment indicators were noted at December 31, 2017 also considering the results of the impairment test performed on the Group CGUs at December 31, 2017.

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)	**2017**	**2016**
As at January 1	**3,326**	**3,606**
Of which:		
- deferred tax assets	*3,358*	*3,639*
- deferred tax liabilities	*(32)*	*(33)*
Charged to the income statement	556	(292)
Credited/(Charged) to the other comprehensive income	2	3
Other changes	*8*	9
Tax impact of transaction costs related to the increase in share capital	-	-
As at December 31	**3,892**	**3,326**
Of which:		
- deferred tax assets	*3,923*	*3,358*
- deferred tax liabilities	*(31)*	*(32)*

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

10 Other Current Assets

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Other receivables from related parties	1,345	1,500
Tax receivables	4	108
Other receivables and current assets	162	169
Other current assets	**1,511**	**1,777**

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

11 Cash and cash equivalents

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Cash at bank	32,322	18,693
Cash and cash equivalents	6	3
Total	**32,328**	**18,696**

12 Equity

Share capital

As at December 31, 2017, the issued and fully paid share capital of the Parent amounted to Euro 34,300 thousand and consists of 34,300,000 ordinary shares without nominal value.

Other reserves and retained earnings

Other reserves and retained earnings are detailed as follows:

(in thousands of Euro)	*Legal reserve*	*Share premium reserve*	*Other reserves*	**Other reserves**	**Retained earnings**
As at December 31, 2015	***3,769***	***62,918***	***49,880***	**116,567**	**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)
Dividend distribution	**-**	-	*(3,087)*	(3,087)	**-**
As at December 31, 2016	***3,786***	***62,918***	***46,793***	**113,497**	**8,769**
Profit for the year	-	-	-	**-**	6,721
Remeasurements of employee benefit obligations	-	-	-	**-**	(12)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**6,709**
Reclassifications	*410*	**-**	-	410	(410)
Dividend distribution	**-**	-	*(5,145)*	(5,145)	**-**
As at December 31, 2017	***4,196***	***62,918***	***41,648***	**108,762**	**15,068**

The share premium reserve, amounting to Euro 62,918 thousand at December 31, 2017, is recognised net of the listing costs incurred in 2015 and related to the share capital increase in accordance with IAS 32.

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

(in thousands of Euro)	As at December 31, 2017	Potential uses*	Amount available
Share capital	**34,300**		
Legal reserve	4,196	B	**-**
Share premium	62,918	A, B, C	60,254
Other equity-related reserves	41,648	A, B, C	41,648
Total other reserves	**108,762**		
Retained earnings	**15,068**	*A, B, C*	15,068
Total equity	**158,130**		
Total			**116,970**
Amount distributable			116,970

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

13 Current and Non-current borrowings

The following table sets forth a breakdown of current and non-current borrowings at December 31, 2017 and 2016:

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

As at 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	**29,942**	**107,943**	**47,901**	**185,786**

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,	
			2017	2016
		(in thousands)	*(in thousands of Euro)*	
denominated in Euro				
Euribor 6M + 3.00%	2013	20,000	-	8,459
Euribor 3M + 3.50%	2013	12,000	-	2,518
Euribor 3M + 1.25%	2015	12,000	8,333	9,667
Euribor 3M + 1.10%	2016	15,000	11,657	14,969
Euribor 6M + 1.35%	2016	50,000	50,000	50,000
Euribor 6M + 0.90%	2016	9,000	8,992	8,988
Euribor 6M + 1.05%	2016	50,000	49,824	49,787
Euribor 6M + 0.9%	2016	10,000	9,997	9,995
Euribor 3M + 0.75%	2016	10,000	9,996	9,995
Euribor 6M +1%	2016	10,000	9,984	4,962
0.80%	2017	10,000	9,984	-
Euribor 3M +0.85%	2017	15,000	14,985	-
Total			**183,752**	**169,340**
of which non-current			*167,436*	*154,971*
of which current			*16,316*	*14,369*

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

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

The Company’s loan contracts during the periods under examination require compliance with certain operational and financial covenants, which had been complied with at December 31, 2017 and 2016. Consequently, there are no events of default to be reported.

On May 18, 2017, the Company entered into a medium-to-long term loan agreement with UBI Banca for an overall amount of Euro 15,000 thousand reaching maturity on May 18, 2022.

In order to reduce the exposure to interest rate fluctuations, certain Interest Rate Swap agreements on existing loans were entered into for a total of Euro 82,500 thousand.

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

(in thousands of Euro)	As at December 31, 2017	2016
Principal amount of long-term borrowings		
- at variable rate	174,000	169,700
- at fixed rate	10,000	-
Notional value of derivatives on interest rates	90,833	20,700
Long-term borrowings converted at fixed rate	55%	12%
Remaining portion of long-term borrowings at variable rate	45%	88%

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

Short-term borrowings

Short-term borrowings include two short-term unsecured borrowings from the Italian branch of Banco Do Brasil bearing variable interest rates and having a principal amount of Euro 6,000 thousand at December 31, 2017. Settlement of the aforementioned borrowings is expected in 2018.

Loans from related parties

Please refer to Note 23 – "*Related Party Transactions*" for further details on loans from related parties.
The following table sets forth a breakdown of the Company's net financial indebtedness as at December 31, 2017 and 2016, 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, 2017	2016
A	Cash and cash equivalents	(6)	(3)
B	Cash at bank	(32,322)	(18,693)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(32,328)**	**(18,696)**
E	**Current financial receivables**	**(7,477)**	**(6,023)**
F	Current loans	5,996	5,999
G	Current portion of non-current loans	16,316	14,369
H	Other current financial payables	5,778	9,575
I	**Current indebtedness (F+G+H)**	**28,090**	**29,943**
J	**Net current indebtedness (I+E+D)**	**(11,715)**	**5,224**
K	Non-current medium/long-term loans	167,436	154,971
L	Issued bonds	-	-
M	Other non-current financial payables	779	873
N	**Non-current indebtedness (K+L+M)**	**168,215**	**155,844**
O	**Net financial indebtedness (J+N)**	**156,500**	**161,068**
	of which due to third parties	158,292	157,607
	of which due to related parties	(1,792)	3,461

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, 2017	2016
As at January 1	**261**	**242**
Service costs	47	52
Interest expenses	4	5
Benefits paid	(27)	(52)
Remeasurements of employee benefits	16	14
As at December 31	**301**	**261**

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

	As at December 31, 2017	2016
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	2.28%	3.02%
Demographic assumptions		
Probability of resignation	6.40%	4.78%
Probability of advance payments to employees	2.62%	2.38%

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:

		Impact on employee benefits based on			
(in thousands of Euro)	**Changes in assumption s (%)**	**Increase in assumptions**	**Decrease in assumptions**	**Increase in assumption s**	**Decrease in assumption s**
Economic assumptions		*as at December 31, 2017*		*as at December 31, 2016*	
Inflation rate	0.50%	4	-4	4	-4
Discount rate	0.50%	-10	11	-10	11
Demographic assumptions					
Probability of resignation	0.50%	-0	0	0	0
Probability of advance payments to employees	0.50%	-0	0	0	0

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

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

Probability of retirement, termination and advance payments

The present value of defined benefit plans is determined using best estimates of termination and advance payments. An increase in the level of retirement, termination and advance payments would result in an increase in the liability.
The following table provides details of expected payments during the next few years (not discounted) in relation to employee benefits.

(in thousands of Euro)	**Balance**	**Less than 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Expected benefits paid to employees at December 31, 2017	**301**	25	30	132	284	**471**
Expected benefits paid to employees as at December 31, 2016	**261**	20	22	116	275	**433**

15 Other Current and Non-Current Liabilities

The item can be broken down as follows:

	As at December 31,	
(in thousands of Euro)	**2017**	**2016**
Non-current interest rate derivatives	1,115	1,142
Other non-current liabilities	**1,115**	**1,142**
Payables to personnel	337	118
Current interest rate derivatives	178	606
Payables to social security institutions	146	149
Tax payables	265	437
Other payables and current liabilities	3,319	2,269
Other payables due to related parties	873	1,792
Other current liabilities	**5,118**	**5,371**

Please refer to Note 3 - “*Management of Financial Risks*” for further details on derivative instruments.

Please refer to Note 23 – “*Related Party Transactions*” for further details regarding “Other payables due to related parties”.

16 Revenue

Revenue amounted to Euro 8,143 thousand in 2017 (Euro 6,607 thousand in 2016), entirely attributable to related party transactions and, in particular, to management fees to subsidiaries.

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Revenue from related parties	8,143	6,607
Total	**8,143**	**6,607**

17 Purchases of Services, Leases and Rentals

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Advertising and promotions	11	2,070
Consultancy and collaborations	691	942
Maintenance, repair and support	187	165
Transportation costs	277	185
Utilities	102	108
Insurance	11	29
Leases and rentals	42	32
Other services	773	972
Total	**2,094**	**4,503**

18 Personnel Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Wages and salaries	3,677	3,775
Social security contributions	719	620
Contributions to pension funds	16	9
Other personnel-related costs	22	30
Accruals to post-employment benefits	48	50
Directors' fees	971	884
Total	**5,453**	**5,368**

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.)	**2017**	**2016**	**2017**	**2016**
Executives	6	5	5	6
Managers and white collar staff	14	12	14	13
Blue-collar workers	15	13	16	14
Total	**34**	**30**	**35**	**33**

19 Other Operating Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Indirect taxes and levies	97	94
Donations	39	38
Other costs	64	35
Total	**200**	**167**

20 Amortization, Depreciation and Impairment

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Depreciation of property, plant and equipment	533	506
Amortization of intangible assets	175	131
Total	**708**	**637**

21 Finance income and costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Interest income	9	-
Interest income from related parties	1,341	1,489
Dividends from subsidiaries	8,235	11,588
Total finance income	**9,585**	**13,077**
Interest expense	(2,141)	(1,663)
Interest expense from related parties	-	(202)
Net foreign exchange gains/(losses)	(1,354)	676
Net changes on derivative financial instruments	20	(273)
Other finance costs	(209)	(399)
Total finance costs	**(3,684)**	**(1,861)**
Total net finance expense	**5,901**	**11,216**

Please refer to Note 23 – “*Related Party Transactions*” for further details regarding interest income from related parties and interest expense from related parties.

During the year, the subsidiaries distributed dividends to the Company for Euro 8,235 thousand (Euro 11,588 thousand in 2016), of which: *i)* Euro 1,009 thousand from Segafredo Zanetti S.p.A. (Euro 2,103 thousand in 2016), *ii)* Euro 1,493 thousand from La San Marco S.p.A. (Euro 1,135 thousand in 2016) and *iii)* Euro 133 thousand from Segafredo Zanetti Coffee System S.p.A. (Euro 750 thousand in 2016) and *iv)* Euro 5,600 thousand from Massimo Zanetti Beverage SA (Euro 7,600 thousand in 2016).

Net foreign exchange gains/(losses) are mainly related to the exchange rate gains and losses from financial receivables from related parties denominated in a foreign currency and, in particular, USD (see note 7 “*Current and Non-Current Financial Receivables*”).

Please refer to Note 3 - “*Management of Financial Risks*” for further details on fair value losses on derivative financial instruments.

22 Income Tax Expense

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Current income tax	(20)	-
Taxes related to prior periods	138	59
Benefit from group tax consolidation	468	1,155
Deferred tax	556	(292)
Total	**1,142**	**922**

The following table provides a reconciliation between theoretical and effective income tax expenses for 2017 and 2016.

	For the year ended December 31,	
(in thousands of Euro)	**2017**	**2016**
Profit (loss) before tax	5,579	7,287
Theoretical taxes	**(1,339)**	**(2,004)**
IRAP		-
Taxes related to prior periods	138	59
ACE and ROL	481	133
Change in IRES rate	-	-
Non-taxable dividends	1,954	3,027
Permanent differences and minor items	(92)	(293)
Income tax benefit	**1,142**	**922**

Measurement of deferred tax assets and deferred tax liabilities takes into consideration the change in IRES tax rate from 27.5% to 24.0% as from 2017.

23 Related Party Transactions

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

The transactions with related parties described below result in benefits arising from the use of common services and shared competencies, Group-level synergies and common policy and strategy in financial matters. In particular, in 2017 and 2016, 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 2017 and 2016, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as at December 31, 2017 and 2016:

(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, 2017	18	8,125	-	**8,143**	8,143	**100.0%**
For the year ended December 31, 2016	18	6,589	-	**6,607**	6,607	**100.0%**
Other income						
For the year ended December 31, 2017	36	-	-	**36**	43	**83.7%**
For the year ended December 31, 2016	36	8	-	**44**	188	**23.4%**
Purchases of raw, ancillary, and consumable materials and goods						
For the year ended December 31, 2017	-	9	-	**9**	54	**16.7%**
For the year ended December 31, 2016	-	10	-	**10**	49	**20.4%**
Purchases of services, leases and rentals						
For the year ended December 31, 2017	-	-	-	**-**	2,094	**0.0%**
For the year ended December 31, 2016	13	-	-	**13**	4,503	**0.3%**
Personnel costs						
For the year ended December 31, 2017	-	-	3,412	**3,412**	5,453	**62.6%**
For the year ended December 31, 2016	-	-	3,536	**3,536**	5,368	**65.9%**
Other operating costs						
For the year ended December 31, 2017	39	-	-	**39**	200	**19.5%**
For the year ended December 31, 2016	35	-	-	**35**	167	**21.0%**
Finance income						
For the year ended December 31, 2017	-	9,576	-	**9,576**	9,585	**99.9%**
For the year ended December 31, 2016	-	13,077	-	**13,077**	13,077	**100.0%**
Finance costs						
For the year ended December 31, 2017	-	-	-	**-**	3,685	**0.0%**
For the year ended December 31, 2016	-	202	-	**202**	1,861	**10.9%**
Impact of transactions on statement of financial position						
Non-current financial receivables						
As at December 31, 2017	-	41,524	-	**41,524**	41,524	**100.0%**
As at December 31, 2016	-	56,448	-	**56,448**	56,448	**100.0%**
Other current assets						
As at December 31, 2017	29	1,316	-	**1,345**	1,511	**89.0%**
As at December 31, 2016	22	1,478	-	**1,500**	1,777	**84.4%**
Current financial receivables						
As at December 31, 2017	-	7,477	-	**7,477**	7,477	**100.0%**
As at December 31, 2016	-	6,023	-	**6,023**	6,023	**100.0%**
Current borrowings						
As at December 31, 2017	-	5,684	-	**5,684**	28,090	**20.2%**
As at December 31, 2016	-	9,484	-	**9,484**	29,943	**31.7%**
Other current liabilities						
As at December 31, 2017	-	873	-	**873**	5,118	**17.1%**
As at December 31, 2016	-	1,792	-	**1,792**	5,371	**33.4%**

The following table shows details of other balances resulting from related party transactions at December 31, 2017 and 2016:

(in thousands of Euro)	**Subsidiaries**	**Total related parties**	**Total**	**Percentage of total**
Guarantees				
As at December 31, 2017	6,379	**6,379**	6,379	**100.0%**
As at December 31, 2016	4,413	**4,413**	4,413	**100.0%**

Subsidiaries

a) Revenue

Management fees relate to the services provided by the Company in accordance with the service agreements entered into with subsidiaries and entities under common control. The nature of the services provided are set out in service agreements with the various related parties and include support, assistance and coordination in relation to sales and production activities and also in relation to the management and implementation of trademarks and other rights owned by the Group. The Company also provides assistance to related parties in the preparation of internal reporting and in the management of human resources.

b) Finance income

Finance income includes *i)* dividends from subsidiaries amounting to Euro 8,235 thousand for 2017 (Euro 11,588 thousand in 2016); see Note 21 "*Finance Income and Costs*" for further details and *ii)* interest income amounting to Euro 1,335 thousand for 2017 (Euro 1,489 thousand in 2016) generated from the financial receivables outstanding at December 31, 2017 and 2016; for further details, see section *d).*

c) Finance costs

In 2017, finance costs to related parties had a nil balance, while they amounted to Euro 202 thousand in 2016 and related to interest expense on the loans from subsidiaries outstanding at December 31, 2016, as described below under section f).

d) Current and Non-Current Financial Receivables

Current and non-current financial receivables amounting to Euro 49,001 thousand at December 31, 2017 (Euro 62,471 thousand at December 31, 2016) relate to receivables granted in favour of MZB SA, Boncafe International Pte Ltd, Massimo Zanetti Beverage (Thailand) Ltd, and Segafredo Zanetti Australia Pty Ltd. (please refer to Note 7 "*Current and Non-Current Financial Receivables* "for further information) and the financial receivables from Meira Oy Ltd.

e) Other current assets and liabilities

The Company opted to use the Group's VAT settlement system (article 73 of Presidential Decree 633/72) and the ''tax consolidation'' scheme (articles 117 et seq. of the Italian Consolidated Law on Income Taxes), together with the direct subsidiaries Segafredo Zanetti S.p.A. and La San Marco S.p.A. and the indirect subsidiary Segafredo Zanetti Coffee System S.p.A.. The items ''Other current and assets" and "Other current liabilities'' mainly include open positions relating to the Group system for payment of VAT and the "tax consolidation statute".

f) Current borrowings

Current borrowings amount to Euro 5,684 thousand at December 31, 2017 (Euro 9,484 thousand at December 31, 2016) and refer to a non-interest-bearing loan to Segafredo Zanetti S.p.A..

g) Guarantees

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

- a guarantee in favour of BNP Paribas, of Euro 1,000 thousand at December 31, 2017 (Euro 1,000 thousand at December 31, 2016), related to the obligations of Segafredo Zanetti Portugal S.A. under the loan contract entered into by the latter with BNP Paribas on July 25, 2013. This guarantee covers the subsidiary Massimo Zanetti Beverage Iberia S.A as a result of the merger between Nutricafes SA and Segafredo Zanetti Portugal SA. in September;

- a guarantee issued on January 27, 2016 in favour of United Overseas Bank Limited in relation to the obligations of Boncafè International Pte Ltd to repay the credit lines granted (SGD 5,200 thousand (Euro 3,245 thousand) at December 31, 2017.

- a guarantee in favour of Intesa San Paolo S.p.A. dated May 16, 2017 in relation to the credit lines granted by the latter to Boncafe' (Hong Kong) Limited for an amount of HKD 20,000 thousand (Euro 2,134 thousand) at December 31, 2017.

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 3,412 thousand and Euro 3,536 thousand for the year ended December 31, 2017 and 2016, 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 2017 *(in thousands of Euro)*
Audit services	PricewaterhouseCoopers SpA	Parent	207
	PricewaterhouseCoopers SpA	Subsidiaries	181
	PricewaterhouseCoopers Network	Subsidiaries	534
Other assurance services	PricewaterhouseCoopers Network	Parent	-
	PricewaterhouseCoopers Network	Subsidiaries	69
Tax and legal services	PricewaterhouseCoopers Network	Parent	10
	PricewaterhouseCoopers Network	Subsidiaries	133
Other services	PricewaterhouseCoopers Network	Parent	367
	PricewaterhouseCoopers Network	Subsidiaries	17

The fees paid to the Board of Statutory Auditors amount to Euro 88 thousand in both 2017 and 2016.

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

	For the year ended December 31,			
(in Euro)	**2017**	**of which related parties**	**2016**	**of which related parties**
Revenue	8,143,255	8,143,255	6,607,237	6,607,237
Other income	42,608	36,000	187,571	43,734
Purchases of raw, ancillary, and consumable materials and goods	(53,761)	(9,030)	(48,759)	(9,791)
Purchases of services, leases and rentals	(2,093,696)	-	(4,503,028)	(12,869)
Personnel costs	(5,452,577)	(3,412,000)	(5,368,432)	(3,536,000)
Other operating costs	(200,102)	39,400	(167,442)	35,000
Amortization, depreciation and impairment	(707,732)		(636,793)	
Operating profit	**(322,004)**		**(3,929,646)**	
Finance income	9,585,224	9,576,379	13,077,269	13,077,269
Finance costs	(3,684,503)	-	(1,860,850)	(202,460)
Loss before tax	**5,578,717**		**7,286,773**	
Income tax expense	1,142,179		922,059	
Profit for the year	**6,720,896**		**8,208,832**	

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

	As at December 31,			
(in Euro)	**2017**	**of which related parties**	**2016**	**of which related parties**
Intangible assets	681,683		478,381	
Property, plant and equipment	13,526,130		13,853,078	
Investments in subsidiaries	259,369,702		248,175,077	
Deferred tax assets	3,923,324		3,356,506	
Non-current financial receivables	41,524,114	41,523,789	56,448,355	56,448,355
Total non-current assets	**319,024,953**		**322,311,397**	
Income tax assets	1,456,971		1,224,409	
Current financial receivables	7,477,390	7,477,390	6,023,255	6,023,255
Other current assets	1,510,563	1,345,390	1,776,711	1,500,076
Cash and cash equivalents	32,327,936		18,695,772	
Total current assets	**42,772,860**		**27,720,147**	
Total assets	**361,797,813**		**350,031,544**	
Share capital	34,300,000		34,300,000	
Other reserves	108,761,850		113,496,408	
Retained earnings	15,067,742		8,769,564	
Total equity	**158,129,592**		**156,565,972**	
Non-current borrowings	168,215,263		155,843,607	
Employee benefits	300,991		260,755	
Deferred tax liabilities	30,941		31,941	
Other non-current liabilities	1,114,959		1,142,004	
Total non-current liabilities	**169,662,154**		**157,278,307**	
Current borrowings	28,090,225	5,683,878	29,942,529	9,483,878
Trade payables	797,883		874,043	
Other current liabilities	5,117,958	872,842	5,370,693	1,791,922
Total current liabilities	**34,006,067**		**36,187,265**	
Total liabilities	**203,668,221**		**193,465,572**	
Total equity and liabilities	**361,797,813**		**350,031,544**	

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

	For the year ended December 31,			
(in Euro)	**2017**	**of which related parties**	**2016**	**of which related parties**
Loss before tax	**5,578,717**		**7,286,773**	
Adjustments for:				
Amortization, depreciation and impairment	707,732		636,793	
Net finance income	(5,900,721)	(9,576,379)	(11,216,419)	(12,874,809)
Other non-monetary items	47,399		52,000	
Net cash generated/(used in) from operating activities before changes in net working capital	**433,127**		**(3,240,853)**	
Changes in trade payables	(76,160)		(1,053,930)	
Changes in other assets/liabilities	202,946	-	5,071,858	-
Payments of employee benefits	(26,983)		(52,437)	
Interest paid	(2,314,880)		(1,648,657)	
Income tax paid	**-**		**-**	
Net cash used in operating activities	**(1,781,950)**		**(924,019)**	
Investments in subsidiaries	(1,000,000)		(68,108,223)	
Dividends received	8,235,045	8,235,045	8,784,742	8,784,742
Purchase of intangible assets	(378,354)		(228,567)	
Purchase of property, plant and equipment	(205,732)		(1,330,782)	
Interest received	1,466,927	1,458,082	1,376,490	1,376,490
Changes in financial receivables	1,921,876	1,921,876	(26,130,106)	(26,130,106)
Net cash generated from/(used in) investing activities	**10,039,762**		**(85,636,446)**	
Proceeds from long-term borrowings	30,000,000		149,000,000	
Repayment of long-term borrowings	(19,590,736)	(3,800,000)	(35,030,530)	
Decrease in short-term loans	110,088		(6,664,906)	(9,816,478)
Share capital increase	-		-	
Dividends paid	(5,145,000)		(3,087,001)	
Net cash generated from financing activities	**5,374,352**		**104,217,564**	
Total net increase in cash and cash equivalents	**13,632,164**		**17,657,099**	
Cash and cash equivalents at the beginning of the year	18,695,772		1,038,673	
Cash and cash equivalents at the end of the year	**32,327,936**		**18,695,772**	

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

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

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

   of the administrative and accounting procedures for preparing the financial statements, for the year ended December 31, 2017.

2. The assessment of the adequacy of the administrative and accounting procedures used in preparing the financial statements, for the year ended December 31, 2017 was based on a process defined by Massimo Zanetti Beverage Group S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally- accepted reference framework.

3. The undersigned further certify that:

   3.1 the financial statements:

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

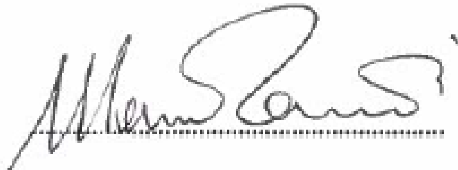
   b) reflect the accounting books and records; and

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

   3.2 the Report on Operations includes a reliable analysis of the significant events that occurred during the financial year and the impact of such events on the issuer's financial statements.

Villorba (TV), February 28, 2018

Massimo Zanetti
Chairman and Chief Executive Officer



Leonardo Rossi
Manager in Charge of the Company's Financial Reports

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

Independent auditor's report

in accordance with article 14 of Legislative Decree n° 39 of 27 January 2010 and article 10 of Regulation (EU) n° 537/2014

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Massimo Zanetti Beverage Group SpA (the Company), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income and the statement of changes in equity, the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/05.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of investments in subsidiaries *Note 8 to the financial statements* The financial statements of Massimo Zanetti Beverage Group SpA include investments in subsidiaries amounting to Euro 259,370 thousand, accounting for 72% of total assets, recognized at the purchase price or incorporation cost and tested for impairment in case impairment indicators are identified. As part of our audit of the financial statements as at 31 December 2017, we focused on this area in view of the materiality of the amounts, also in relation to total assets, and the elements of estimate intrinsic to the valuation of investments in subsidiaries.	As part of our audit of the financial statements as at 31 December 2017, we performed the following procedures. We obtained an understanding of the procedure adopted by the Company to identify impairment indicators, examining management's verifications regarding the absence of indicators provided for in paragraph 12 of International Accounting Standard IAS 36 adopted by the European Union. We compared the results reported by the subsidiaries in 2017 with those estimated in the budget for the same year. Finally, we obtained and evaluated the internal forecasting showing the results estimated in the 2018 budget, included in the business plan submitted to the Board of Directors on 23 February 2018.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated

with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) n° 537/2014

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

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) n 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree n° 39/10 and Article 123-bis, paragraph 4, of Legislative Decree n° 58/98

Management of Massimo Zanetti Beverage Group SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) n° 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree n° 58/98, with the financial statements of Massimo Zanetti Beverage Group SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Massimo Zanetti Beverage Group SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree n° 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 16 March 2018

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

Report of the Board of Statutory Auditors to the Shareholders' Meeting

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING
OF MASSIMO ZANETTI BEVERAGE GROUP S.p.A.
DRAWN UP PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98 AND
ARTICLE 2429.2 OF THE ITALIAN CIVIL CODE

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Dear Shareholders,

On April 11, 2017, the Ordinary Shareholders' Meeting of Massimo Zanetti Beverage Group S.p.A. ("MZBG" or the "Company") renewed the Board of Statutory Auditors, whose three-year term of office had expired, and appointed the following statutory auditors, Fabio Facchini (Chairman), Simona Gnudi (Standing Auditor) and Franco Squizzato (Standing Auditor), for the 2017-2019 three-year period until the approval of the 2019 financial statements.

This report has been drawn up pursuant to article 153 of Legislative decree no. 58 of February 24, 1988 (the "TUF" or the "Consolidated Law on Finance") and article 2429 of the Italian Civil Code, in accordance with CONSOB (the Italian Commission for Listed Companies and the Stock Exchange) communication no. 1025564 of April 6, 2001, as subsequently amended and supplemented, and considering the rules of conduct set by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

1. In performing its supervisory and monitoring tasks, the Board of Statutory Auditors confirms:
   - it checked compliance with the law and the Bylaws and the principles of sound management, as required by article 2403 of the Italian Civil Code, article 149 of the T.U.F. and the above CONSOB communication no. 1025564 of April 6, 2001;
   - it participated in all meetings of the Board of Directors, the Internal Audit and Risk Committee, the Nominating and Remuneration Committee and the Committee for Related Party Transactions. Furthermore, it was periodically informed by the Directors about the overall business performance, its outlook and the main transactions with an effect on the Company's financial position and results of operations approved and implemented by the Company and its investees. The Board of Statutory Auditors can reasonably confirm that the transactions approved and implemented comply with the law and the Bylaws, are not openly imprudent, risky, in potential conflict of interest, in contrast with the Shareholders' Meetings' resolutions or such to jeopardise the integrity of the Company's assets; it did not identify any atypical and/or unusual transactions with group companies, third parties or related parties, nor was informed thereof by the Board of Directors, the independent auditors or the director in charge of the internal audit and risk management system. The Board of Directors described the effects of the ordinary transactions with a significant impact on the Company's financial position and results of operations carried out with related parties on an arm's length basis in the Management Report and in the Notes to the consolidated financial statements. Furthermore, also based on the results of the specific controls carried out by the Internal Audit department, the Board of Statutory Auditors believes that related party transactions are adequately monitored. To this end, in accordance with the Regulations on transactions with related parties introduced pursuant to Consob Resolution no. 17221 dated March 12, 2010, as subsequently amended and integrated, the Company adopted a procedure governing related-party transactions. The aforementioned procedure was approved by the Board of Directors of the Company on July 15, 2015 and amended on August 28, 2015 with the approval of the independent directors. Pursuant to article 4 of the above Regulation, the Board of Statutory Auditors checked that

the procedures adopted complied with the Regulation's provisions and that they were complied with;

- it gained knowledge of and monitored the adequacy of the Company's organisational structure to the extent of its duties, and compliance with the principles of sound management, by collecting information from the Company's departments' heads and during the meetings held with the representatives of the independent auditors, PricewaterhouseCoopers S.p.A., which was engaged to perform the statutory audit of the financial statements, also for the purposes of exchanging relevant data and information, without identifying any critical issues. Similarly, no critical issues were identified during the meeting with the Boards of Statutory Auditors of the Italian subsidiaries (Segafredo Zanetti S.p.A., Segafredo Zanetti Coffee System S.p.A. and La San Marco S.p.A.);
- it assessed and monitored, to the extent of its duties pursuant to article 19 of Legislative decree no. 39/2010, the financial reporting process, the adequacy of the internal control and accounting/administrative systems, and the latter's reliability in fairly presenting the Company's operations, by:
  a) regularly exchanging information with the Chief Executive Officer and the Manager in charge of the preparation of corporate accounting documents pursuant to article 154-bis of the T.U.F.;
  b) assessing the reports prepared by the Internal Audit department, including the corrective actions proposed and their implementation by the Company;
  c) obtaining information from the departments' heads;
  d) holding meetings and exchanging information with the Supervisory Committee and the supervisory bodies of the Italian subsidiaries, through which the Board of Statutory Auditors obtained information on the administrative and control systems and business activities;
  e) performing in-depth analyses of the activities carried out and the findings of the work conducted by the independent auditors;
  f) participating in the meetings and the work of Audit and Risk Committee and, where necessary, by performing in-depth analyses of the relevant issues.

  The Board of Statutory Auditors did not identify any irregularities which may indicate weaknesses in the internal audit and risk management system.
- it met the independent auditors in charge of performing the statutory audit of the financial statements, pursuant to article 150.3 of the T.U.F and article 19 of Legislative decree no. 29/2010 without identifying any facts or circumstances which require disclosure herein. It carried out the supervisory activities required by article 19 of Legislative decree no. 39/2010.
- it checked the implementation of the Corporate Governance Code of Listed Companies promoted by Borsa Italiana S.p.A. and adopted by the Company in accordance with that set out in the Report on Corporate Governance and Shareholding Structure approved by the Board of Directors on February 28, 2018. The Board of Statutory Auditors also checked the correct application of the criteria and assessment procedures used by the Board of Directors to assess the independence of its members. Furthermore, it checked compliance with the independence and professional expertise requirements of its members, pursuant to applicable legislation;
- it read and obtained information about the organisational and procedural activities carried out pursuant to Legislative decree no. 231/2001 on the administrative liability of entities. The Supervisory Committee reported to the Board of Statutory Auditors on the activities carried out during the year without noting any significant events;
- it satisfied itself as to the fact that the information flows from the extra-EU subsidiaries were adequate for the purposes of checking the annual and interim financial statements pursuant to article 36 of the Market Regulations adopted as per Consob Resolution no. 16191 dated October 29, 2007;
- it monitored the implementation of the organisational measures related to the development of the Company's business;
- it monitored compliance with the provisions of Legislative decree no. 254/2016 on the reporting of non-

financial and diversity information;

- it received the draft financial statements of MZBG S.p.A. at December 31, 2017, the Group's consolidated financial statements at the same date, the Management Reports thereon and the Consolidated non-Financial Statement from the Board of Directors in accordance with the law.

During the year, the Board of Statutory Auditors met nine times and also participated in the eight meetings of the Board of Directors and all those of the Board Committees.

Based on the information obtained, the Board of Statutory Auditors believes that the business was conducted in accordance with the principles of sound management and that the organisational structure, the internal control system and the administrative/accounting structure are overall adequate to the Company's needs.

2. With respect to the relationship with the independent auditors, the following should be noted:
   - on today's date, pursuant to article 11 of Regulation (EU) 537/2014, the independent auditors, PricewaterhouseCoopers S.p.A., issued their Report to the Internal Audit and Audit Committee which, specifically, is embodied by the Board of Statutory Auditors, stating that no significant weaknesses were identified in the internal controls over financial reporting. The independent auditors' Report also includes the "Annual statement on independence" pursuant to article 6.2, letter a of the above EU Regulation.
   - again on today's date, PricewaterhouseCoopers S.p.A. issued its reports pursuant to articles 14 and 16 of Legislative decree no. 39/2010 and article 3 of Legislative decree no. 254/2016, stating that:
     - the separate and consolidated financial statements at December 31, 2017 give a true and fair view of the Company's and the Group's financial position, results of operations and cash flows as at and for the year ended December 31, 2017;
     - the Management Report and the information provided in article 123 bis. 4 of Legislative decree no. 58/98, included in the Report on Corporate Governance and Ownership Structure, are consistent with the separate and consolidated financial statements;
     - based on the work performed, no elements arose which led to believe that the Consolidated non-financial statement at December 31, 2017 has not been prepared, in material respects, in accordance with articles 3 and 4 of Legislative decree no. 254/2016 and the relevant reporting standards applied;
     - in addition to the tasks required by the current regulations applicable to listed companies, as described in the notes to the separate financial statements, the independent auditors, PricewaterhouseCoopers S.p.A., and their network companies, were assigned other engagements for non-audit services for Euro 596 thousand, which complied with that set out in article 17 of Legislative decree no. 39/2010. Also based on the above, the Board of Statutory Auditors believes that there are no critical issues regarding the independence of PricewaterhouseCoopers S.p.A..

3. During the year, no opinions required by the law were expressed since the necessary conditions were not met.

4. The Board of Statutory Auditors is not aware of any facts or claims to be reported to the Shareholders. As part of its activities and based on the information obtained, no omissions, censurable facts, irregularities or circumstances such to require communication to the Supervisory Authorities or disclosure in this report were identified.

5. With respect to the separate and consolidated financial statements at December 31, 2017 and the Management Report, the Board of Statutory Auditors, to the extent of its duties, notes that the financial statement format applied complies with the law, that the accounting policies, as described in the notes, are adequate to the activities and the transactions carried out by the Company and the Group, that the procedure adopted (impairment test) to identify any impairment losses on the assets recognised in the financial statements was approved by the Board of Directors independently and before the approval of the annual report and that the financial statements are consistent with the facts and the information known to the Board of Statutory Auditors after participating in its meetings and as part of the task performed.

6. Based on the outcome of the specific tasks performed by the independent auditors on the audit of the accounting records and the reliability of the financial statements, and considering the supervisory duties carried out, the Board of Statutory Auditors is unanimously in favour of the approval of the separate financial statements as at December 31, 2017 and agrees with the Board of Directors' proposed allocation of the profit for the year.

Milan, March 16, 2018

On behalf of the Board of Statutory Auditors

The Chairman

Fabio Facchini