ANNUAL REPORT

2019

MASSIMO ZANETTI
BEVERAGE GROUP

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Parent Information

Massimo Zanetti Beverage Group S.p.A.

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

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

Tax Code/Business Register/VAT No. 02120510371

Corporate and supervisory bodies of the Parent

Board of Directors

Massimo Zanetti
Chairman and Chief Executive Officer

Matteo Zanetti (**)
Director

Laura Zanetti (**)
Director

Massimo Mambelli
Director

Leonardo Rossi
Director

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

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

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

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

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

Board of Statutory Auditors

Fabio Facchini
Chairman

Simona Gnudi
Standing Auditor

Franco Squizzato
Standing Auditor

Cristina Mirri
Alternate Auditor

Alberto Piombo
Alternate Auditor

Manager in charge of the preparation of corporate accounting documents

Leonardo Rossi

Independent Auditors

PricewaterhouseCoopers S.p.A.

DISCLAIMER

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

MANAGEMENT REPORT

Introduction

With reference to the year ended December 31, 2019, 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, 2019

- On February 1, 2019 the Group has finalized, through its Swiss subsidiary, the acquisition of the business and asset of a group of companies based in Melbourne known as “The Bean Alliance”. The acquisition price, including the potential earn-out, was Euro 19,945 thousand with net financial position equal to zero. The agreement provides for a potential earn-out to be paid in three annual instalments, starting from January 31, 2020, should the specific annual qualitative and quantitative targets agreed be achieved.
- On February 11, 2019 Massimo Zanetti Beverage Iberia has completed the acquisition of the Portuguese companies Cafés Nandi SA. and Multicafès Industria de Cafè, near to Lisbon, with a capital employed of Euro 6,575 thousand. This acquisition enables the Group to double the current production capacity of the Portuguese plant, in order to satisfy the increasing demand in Europe, for single serves. The Portuguese company acquired also the client portfolio of one of its agents for a total of Euro 980 thousand in the first quarter of 2019.
  In order to finance these investments, the company entered into a medium-to-long term loan agreement with Banco Comercial Portugues for an overall amount of Euro 6,000 thousand reaching maturity in 2025.
- Within the scope of the ordinary fund-raising activities, the Group entered into a medium-to-long term loan agreement with Monte dei Paschi di Siena in February 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2026;
- Within the scope of the ordinary fund-raising activities, the Group entered into a medium-to-long term loan agreement with Credito Valtellinese in February 2019 for an overall amount of Euro 15,000 thousand reaching maturity in 2026;
- On March 22, 2019 has become effective the merge of both two new companies acquired in Massimo Zanetti Beverage Iberia with retroactive effect to January 1, 2019.
- On April 10, 2019, the Ordinary Shareholders' Meeting of Massimo Zanetti Beverage Group S.p.A. approved the 2018 financial statements and the distribution of a dividend of Euro 0.19 per share, for a total of Euro 6,517 thousand.
- Within the scope of the ordinary fund-raising activities, the Group entered into a medium-to-long term loan agreement with UBI Banca in September 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2023.
- On October 10, 2019 the Group has finalized, through its Brazilian subsidiary Segafredo Zanetti (Brasil) Com. distr. de Cafè S.A, the acquisition of Cafè Pacaembu Ltda e Pacaembu Holding Ltda, based in Vargem Grande do Sul in Brasil, strengthening its presence in South America. The acquisition price was Euro 25,331 thousand, of which Euro 22,676 thousand was paid immediately whereas the residual price will be paid in three fixes annual tranches, starting from 10 October 2020.
- On November 7, 2019 within the scope of the ordinary fund-raising activities, the Group entered into a medium-to-long term loan agreement with Banca Nazionale del Lavoro for an overall amount of Euro 30,000 thousand reaching maturity in 2024. As at December 31, 2019 the loan was utilized for Euro 5,000 thousand.

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, 2019 and 2018

The following table sets forth the reclassified consolidated income statement for the years ended December 31, 2019 and 2018.

	For the year ended December 31,				**Change**	
(in thousands of Euro)	**2019**	**(*)**	**2018**	**(*)**	**2019-2018**	
Revenue	914,465	100.0%	891,203	100.0%	23,262	2.6%
Raw, ancillary, and consumable materials and goods	(506,775)	-55.4%	(502,407)	-56.4%	(4,368)	0.9%
Gross Profit (1)	**407,690**	**44.6%**	**388,796**	**43.6%**	**18,894**	**4.9%**
Purchases of services, leases and rentals	(174,408)	-19.1%	(174,125)	-19.5%	(283)	0.2%
Personnel costs	(152,039)	-16.6%	(142,316)	-16.0%	(9,723)	6.8%
Other operating costs, net (2)	164	0.0%	640	0.1%	(476)	-74.4%
Impairment (3)	(926)	-0.1%	(1,743)	-0.2%	817	-46.9%
EBITDA (1)	**80,481**	**8.8%**	**71,252**	**8.0%**	**9,229**	**13.0%**
Non-recurring charges	3,538	0.4%	2,494	0.3%	1,044	41.9%
Adjusted EBITDA (1)	**84,019**	**9.2%**	**73,746**	**8.3%**	**10,273**	**13.9%**
Depreciation and amortization (4)	(46,500)	-5.1%	(34,862)	-3.9%	(11,638)	33.4%
Operating profit	**33,981**	**3.7%**	**36,390**	**4.1%**	**(2,409)**	**-6.6%**
Net finance expense (5)	(8,709)	-1.0%	(7,259)	-0.8%	(1,450)	20.0%
Share of losses of companies accounted for using the equity method	(863)	-0.1%	(879)	-0.1%	16	-1.8%
Profit before tax	**24,409**	**2.7%**	**28,252**	**3.2%**	**(3,843)**	**-13.6%**
Income tax expense	(9,097)	-1.0%	(8,355)	-0.9%	(742)	8.9%
Profit for the period	**15,312**	**1.7%**	**19,897**	**2.2%**	**(4,585)**	**-23.0%**

(*) 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 amount to Euro 914,465 thousand for the year ended December 31, 2019, an increase of Euro 23,262 thousand (+2.6%) compared to the year ended December 31, 2018. This change is mainly due to the combined effect of:

- the increase in roasted coffee sales volumes (+2.5%);
- the decrease in the sales price of roasted coffee and other (-2.3%);
- foreign exchange rate impact (+2.4%).

Excluding the foreign exchange rate impact, the increase of revenues amount to 1,490 thousand (+0.2%), mainly due to the increase in sales of "Other product", equal to Euro 7,050 thousand (+0.8%), partially offset by the decrease of the "Sale of roasted coffee" (Euro 5,560 thousand or -0.6%). This decrease (-0.7%) is mainly due to the combined effect of:

- the decrease in the sales prices of roasted coffee, which resulted in a decrease in revenue of 3.5%, due to the change in the purchase price of green coffee in 2019, as well as the different mix in the sales channels in 2019 and 2018;
- the increase in the volumes of roasted coffee which resulted in an increase of revenues of 2.8% compared to 2018. The volumes of roasted coffee sold amounted to 130.9 thousand tonnes and 127.3 thousand tonnes, respectively in year 2019 and 2018. At group level, the increase mainly affected the *Private Label* channel and, to a lesser extent, the *Mass Market* channel and *Food Service* channel. With respect to the geographical areas, the increase is referred to the Americas (2.3 thousand tonnes) driven by *Private Label and Mass Market* channels, Northern Europe (1.2 thousand tonnes) mainly in Mass Market and the Asia pacific and Cafes area (1.3 thousand tonnes) in the *Private Label and Mass Market* channels. Southern Europe decreased (1.2 thousand tonnes), mainly in the *Mass Market* channel.

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2019 and 2018, by sales channel.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2019**	**(*)**	**2018**	**(*)**	**2019-2018**	
Foodservice	217,323	23.8%	208,784	23.4%	8,539	4.1%
Mass market	329,744	36.1%	327,362	36.7%	2,382	0.7%
Private Label	303,040	33.1%	294,875	33.1%	8,165	2.8%
Other	64,358	7.0%	60,182	6.8%	4,176	6.9%
Total	**914,465**	**100.0%**	**891,203**	**100.0%**	**23,262**	**2.6%**

(*) Percentage of revenue.

The following table provides a breakdown of revenue of the Group for the years ended December 31, 2019 and 2018, by geographical area.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2019**	**(*)**	**2018**	**(*)**	**2019-2018**	
Americas	405,700	44.4%	396,794	44.5%	8,906	2.2%
Northern Europe	182,876	20.0%	180,564	20.3%	2,312	1.3%
Southern Europe	227,822	24.9%	234,950	26.4%	(7,128)	-3.0%
Asia-Pacific and Cafés (**)	98,067	10.7%	78,895	8.9%	19,172	24.3%
Total	**914,465**	**100.0%**	**891,203**	**100.0%**	**23,262**	**2.6%**

(*) 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 407,690 thousand in 2019, an increase of Euro 18,894 thousand (+4.9%) on 2018. The increase is mainly due to the impact of exchange rates for Euro 6,727, mainly related to the US dollar fluctuations (+1.7%).

On a comparable basis, *Gross Profit* increased by Euro 12,168 thousand (+3.1%) mainly driven by the positive performance of the roasted coffee (+1.9%). The increase *Gross profit* related to roasted coffee (+2.3%) is mainly due to the increase of volumes (+2.8%), partially compensated by trends of sales prices and the purchase price of green and roasted coffee, and different sales mix in 2019 and 2018 (-0.5%).

EBITDA and Adjusted EBITDA

The following table provides a reconciliation between EBITDA and the profit for the years ended December 31, 2019 and 2018:

	For the year ended December 31,				Change	
(in thousands of Euro)	**2019**	**(*)**	**2018**	**(*)**	**2019-2018**	
Profit for the year	15,312	1.7%	19,897	2.2%	(4,585)	-23.0%
Income tax expense	9,097	1.0%	8,355	0.9%	742	8.9%
Finance costs	9,504	1.0%	7,596	0.9%	1,908	25.1%
Finance income	(795)	-0.1%	(337)	0.0%	(458)	>100%
Share of losses of companies accounted for using the equity method	863	0.1%	879	0.1%	(16)	-1.8%
Depreciation and amortization(1)	46,500	5.0%	34,862	3.9%	11,638	33.4%
EBITDA(2)	**80,481**	**8.8%**	**71,252**	**8.0%**	**9,229**	**13.0%**

(*) 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, 2019 and 2018:

	For the year ended December 31,				Change	
(in thousands of Euro)	**2019**	**(*)**	**2018**	**(*)**	**2019-2018**	
EBITDA(1)	80,481	8.8%	71,252	8.0%	9,229	13.0%
Non-recurring charges	3,538	0.4%	2,494	0.3%	1,044	41.9%
Adjusted EBITDA(1)	**84,019**	**9.2%**	**73,746**	**8.3%**	**10,273**	**13.9%**

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

Adjusted EBITDA amounted to Euro 84,019 thousand in 2019, shows an increase of Euro 10,273 thousand (+13.9%) compared with 2018. The result is mainly due to the aforementioned factors impacting *Gross Profit*, and the combined effect of:

- Impact of application of new IFRS 16, applicable from the first of January 2019, which resulted in an increase of EBITDA of Euro 10,251 thousand, due to lower costs for "Rent and lease" booked in "Purchases of services, leases and rentals" for Euro 12,618 thousand, partially compensated by the accounting of active leases booked in "Other revenues" for Euro 2,367 thousand, referred to subleasing accounting (please refer to note 2.5 - "*Impact from new accounting standards*");
- Impact of fluctuations of foreign exchange rates, negative for Euro 1,063 thousand;

- the increase in net operating costs, excluding foreign exchange rate impact and application of IFRS 16 amounts to Euro 13,207 thousand which is mainly due to the increase of personnel costs and to the increase of services costs, partially reduced by the decrease of devaluations.

Operating profit

Operating profit amounted to Euro 33,981 thousand for the year ended December 31, 2019, with a decrease of Euro 2,409 thousand (-6.6%) compared to the year ended December 31, 2018. In addition to the Adjusted EBITDA, mentioned earlier, the decrease is mainly attributable to *i)* Euro 3,538 thousand non-recurring charges recognised in 2019 (of which mainly Euro 2,649 thousand refers to the operations in Southern Europe) and *ii)* Euro 11,638 thousand increase in "Depreciation and amortisation" (+33.4%) due to *a)* for Euro 9,284 thousand to the application of IFRS 16 (please refer to note 2.5 - "*Impact from new accounting standards*") *b)* for Euro 558 thousand to foreign rates fluctuations impact.

Profit for the year

The **profit for the year** amounted to Euro 15,312 thousand in 2019, a decrease of Euro 4,585 thousand (-23.0%) compared to 2018. In addition to what previously described for Operating Profit, the decrease is also due to the combined effect of:

- the increase in net finance costs of Euro 1,450 thousand mainly due to *i)* impact of first application of new standard IFRS 16 for Euro 1,290, please refer to note 2.5 - "*Impact from new accounting standards*"; *ii)* decrease of exchange losses for Euro 600 thousand; *iii)* higher interest charges for Euro 875 thousand, referred to bank loan contracts an transactions with related parties;
- the increase in income taxes of Euro 742 thousand (+8.9%).

Reclassified statement of financial position

The following table shows the reclassified statement of financial position of the Group as of December 31, 2019 and 2018:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Investments:		
Intangible assets	227,016	182,799
Property, plant and equipment and investment properties	270,370	219,898
Investments in joint ventures and associates	11,166	10,404
Non-current trade receivables	2,949	2,542
Deferred tax assets and other non-current assets	35,423	25,183
Non-current assets (A)	**546,924**	**440,826**
Net working capital (B)(1)	**103,790**	**94,437**
Employee benefits	(10,491)	(8,822)
Other non-current provisions	(3,039)	(3,190)
Deferred tax liabilities and other non-current liabilities(2)	(33,250)	(29,885)
Non-current liabilities (C)	**(46,780)**	**(41,897)**
Net invested capital (A+B+C)	**603,934**	**493,366**
Sources:		
Equity	337,407	318,648
Net Debt	266,527	174,718
Sources of financing	**603,934**	**493,366**

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 of December 31, 2019 and 2018:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Inventories	154,525	131,649
Trade receivables	114,635	120,832
Income tax assets	3,512	3,271
Other current assets (1)	20,594	15,603
Trade payables	(155,238)	(144,292)
Income tax liabilities	(2,531)	(1,664)
Other current liabilities	(31,707)	(30,962)
Net working capital(2)	**103,790**	**94,437**

(1) Other current assets exclude current financial receivables which are included in Net Debt
(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, 2019 and 2018.

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Adjusted EBITDA [1]	**84,019**	**73,746**
Non-recurring items paid	(3,952)	(4,198)
Changes in Net Working Capital	(4,687)	(3,516)
Net recurring investments[2]	(35,508)	(31,567)
Income tax paid	(8,513)	(8,340)
Other operating items[3]	1,383	2,622
Free cash flow	**32,742**	**28,747**
Net non-recurring investments[4]	(44,632)	(1,200)
Investments (Disposals) in financial receivables[5]	3,646	(1,363)
Interest paid	(6,325)	(5,688)
Net cash generated from financing activities	31,657	(12,031)
Financial variations from IFRS 16 leasing	(10,086)	-
Dividends paid	(6,657)	(5,999)
Exchange gains/(losses) on cash and cash equivalents	1,010	1,431
Net increase in cash and cash equivalents	**1,355**	**3,897**
Cash and cash equivalents at the beginning of the period	93,491	89,594
Cash and cash equivalents at the end of the period	**94,846**	**93,491**

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

Free Cash Flow positive for Euro 32,742 thousand in 2019, shows an increase of Euro 3,995 thousand compared to 2018. The increase is mainly due to the effect of introduction of IFRS 16 (positive for Euro 10,251 thousand) and to changes in net working capital.

The following table shows the composition of the changes in net working capital for the years ended December 31, 2019 and 2018.

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Changes in inventories	(19,554)	(1,378)
Changes in trade receivables	7,996	(832)
Changes in trade payables	8,644	2,245
Changes in other assets/liabilities	(1,363)	(2,775)
Payments of employee benefits	(410)	(776)
Changes in net working capital	**(4,687)**	**(3,516)**

The **changes in Net Working Capital**, negative for Euro 4,687 thousand in 2019, represent a decrease of Euro 1,171 thousand compared to 2018. The decrease is mainly due to:

- the change in trade payables (negative for Euro 18,176 thousand) as a consequences of the increase in quantities of green coffee and finished product;
- partially compensated by changes in trade receivables (positive for Euro 8,828 thousand) and changes in commercial payables (positive for Euro 6,399 thousand).

Net recurring investments amounted to Euro 35,508 thousand for the year ended December 2019, an increase of Euro 3,941 thousand compared to the year ended December 31, 2018. The increase is partly due to the implementation of Group ERP software.

Net non-recurring investments amounted to Euro 44,632 thousand and Euro 1,200 thousand for the year ended December 31, 2019 and 2018, respectively.

In 2019 non-recurring investments referred to the following acquisitions:
- of the business and the asset of a group of companies known as "The Bean alliance" in Australia;
- of Cafés Nandi S.A. and Multicafés Industria de Café in Portugal;
- of Café Pacaembu Ltda and Pacaembu Holding Ltda in Brasil;

All these operations absorbed cash flow for the overall amount of Euro 43,132 thousand. Please refer to note 5 - "*Business combinations*" for further details.

Moreover, the Group made capital contributions to Virtus Pallacanestro Bologna S.S.D. a r.l., for Euro 1,500 thousand and Euro 1,200 thousand during 2019 and 2018.

Net cash generated from financing activities amounted to Euro 31,657 thousand for the year ended December 31, 2019. As of December 31, 2018, financing activities absorbed cash for Euro 12,031 thousand.

The cash flow generated in 2019 was mainly due to *i)* the issue of new long-term loans, which, net of repayments in the period, amounted to Euro 20,547 thousand, *ii)* the increase in short-term loans (Euro 11,110 thousand).

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

Net cash outflow from leasing accounted under IFRS 16 equal to Euro 10,086 thousand represents the net effect of the outflows and the inflows of the Group for those leases accounted as finance under IFRS 16. Please refer to note 2.5 - "*Impacts from new accounting standards"* for more details.

Net Debt

The following table shows the breakdown of Net Debt of the Group at December 31, 2019 and at December 31, 2018, 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 of December 31, 2019**	**As of December 31, 2018**
A	Cash and cash equivalents	(1,108)	(964)
B	Cash at bank	(93,738)	(92,527)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(94,846)**	**(93,491)**
E	**Current financial receivables**	**(1,994)**	**(3,728)**
F	Current loans	61,699	49,651
G	Current portion of non-current loans	66,230	45,243
H	Other current financial payables	15,569	1,743
I	**Current debt (F+G+H)**	**143,498**	**96,637**
J	**Net current debt (I+E+D)**	**46,658**	**(582)**
K	Non-current loans	175,001	172,796
L	Issued bonds	-	-
M	Other non-current financial payables	44,868	2,504
N	**Non-current debt (K+L+M)**	**219,869**	**175,300**
O	**Net Debt (J+N)**	**266,527**	**174,718**

Net Debt amounted to Euro 266,527 thousand at December 31, 2019, an increase of Euro 91,809 thousand compared to December 31, 2018. The change is mainly due to:

- accounting of lease liability due to the first application of IFRS 16 for Euro 49,121 thousand as well as lease receivables for Euro 1,943 thousand related to subleasing contracts. Please refer to note 2.5 - "Impact *deriving from new accounting standards"* for further details;
- positive Free cash flow for Euro 32,742 thousand in 2019;
- dividends paid amounting to Euro 6,657 thousand;
- interest paid for Euro 6,325 thousand;
- non-recurring investments made during the year closed at December 31, 2019 amounting to Euro 53,525 thousand;
- impact of Euro/USD foreign currency exchange rate 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, 2019 and 2018.

	For the year ended December 31,			
(in thousands of Euro)	**2019**		**2018**	
	Capital expenditure	**Cash-out**	**Capital expenditure**	**Cash-out**
Business combinations, including those under common control	52,072	43,132	-	-
Investments in associates	1,500	1,500	1,200	1,200
Intangible assets	5,348	5,348	2,784	2,784
Property, plant and equipment	31,041	31,041	29,806	29,806
Total	**89,961**	**81,021**	**33,790**	**33,790**

Business combinations, including those under common control

On February 1, 2019 the Group finalized, through its Swiss subsidiary, the acquisition of the business and asset of a group of companies based in Melbourne known as “The Bean Alliance” strengthening its presence in the Australian market. The purchase price of Euro 19,945 thousand, includes the potential earn-out to be paid in three annual instalments, starting from January 31, 2020, on the occurrence of specific annual qualitative and quantitative targets.

On February 11, 2019 Massimo Zanetti Beverage Iberia finalized the acquisition of the Portuguese companies Cafés Nandi SA. and Multicafès Industria de Cafè, near to Lisbon, for a total consideration of Euro 6,575 thousand.

During April 2019 the Group finalized the acquisition of Bon Beverages Maldives private limited, a small local distributor in the Maldives.

On October 10, 2019 the Group finalized, through its Brazilian subsidiary Segafredo Zanetti (Brasil) Com. distr. de Cafè S.A, the acquisition of Cafè Pacaembu Ltda e Pacaembu Holding Ltda, based in Vargem Grande do Sul in Brasil, thus strengthening its presence in South America. The acquisition price was Euro 25,331 thousand, of which Euro 22,676 thousand was paid immediately whereas the residual price will be paid in three fixes annual tranches, starting from 10 October 2020.

No investments were done during year 2018.

Investments in associates

In 2019 the Group made a capital contribution for Euro 1,500 thousand to Virtus Pallacanestro Bologna S.S.D. a.r.l. located in Bologna.

In 2018 the Group made a capital contribution for Euro 1,200 thousand to Virtus Pallacanestro Bologna S.S.D. a r.l., located in Bologna. As a consequence of the capital increase partially paid-up by other shareholders, the share held by the Group decreased from the former 40% to the current 37.09%.

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

Intangible assets

The investments of the year 2019 amounted to Euro 3,841 thousand and refer mainly to the implementation of Group ERP software.

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

Property, plant and equipment

Capital expenditure in property, plant and equipment at December 31, 2019, excluding IFRS 16 effect. amounted to Euro 31,041 thousand and mainly relates to bar equipment (Euro 17,084 thousand), industrial and commercial equipment and other assets (Euro 4,373 thousand), and asset in progress (Euro 5,467 thousand).

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

Subsequent events

Please refer to Note 33 – *"Subsequent Events* "in the notes to the consolidated financial statements at December 31, 2019.

Business outlook

In view of the results achieved in 2019 and considering current trends, the expectations relating to the performance of the Group for 2020, assuming the absence of extraordinary transactions, are as follows:

- slight increase in revenues driven by:
    - the improvement in product and channel mix
    - growth in volumes in line with market trends

- EBITDA adjusted in line with 2020

- Net debt is expected to be around Euro 250 million, assuming investments of Euro 50 million.

"Non-GAAP" alternative performance indicators

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

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

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

Related party transactions

For details regarding related party transactions in 2019, please refer to note 32 - *"Related Party Transactions*" of the notes to the consolidated financial statements at December 31, 2019.

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

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

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

Share price trend

Massimo Zanetti Beverage Group ordinary shares are traded on the Italian Electronic Stock Exchange (MTA) organised and managed by Borsa Italiana S.p.A. 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, 2019, 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, 2019, no categories of shares with voting or other rights have been issued aside from ordinary shares. In addition, no financial instruments that provide the right to subscribe newly issued shares have been issued.

Based on communications provided pursuant to article 120 of the Consolidated Law on Finance and other information available to the Company, at December 31, 2019, 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 March 5, 2020.

At December 31, 2019, the Group's workforce amounted to 3,585 with an increase of 226 compared to December 31, 2018. The following table shows the evolution of the number of employees employed by the Group as of December 31, 2019 and 2018, broken down by main categories.

	Average number of employees during the year		Number of employees As of December 31,	
(no.)	**2019**	**2018**	**2019**	**2018**
Executives	114	110	119	108
Managers and white-collar staff	2,038	1,920	2,129	1,948
Blue-collar workers	1,320	1,301	1,337	1,303
Total	**3,472**	**3,331**	**3,585**	**3,359**

The following table shows the breakdown by major geographical area of the Group's employees at December 31, 2019 and 2018.

	As of December 31,	
(no.)	**2019**	**2018**
Americas	947	862
Northern Europe	553	554
Southern Europe	943	902
Asia-Pacific and Cafés	1,142	1,041
Total	**3,585**	**3,359**

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, 2019, 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 independents, nominated at the shareholders' meeting of April 11, 2017. The officers will remain in office for three years, until the shareholders' meeting for the approval of the 2019 financial statements. On May 2018 Mr. Lawrence L. Quier resigned as Director with effect from June 18, 2018. At the same time with effect from June 18, 2018 Mr. Massimo Mambelli gave up the duties previously received from the Board of Director, becoming non-executive Director of the Company. On June 18, 2018 Leonardo Rossi has been appointed by co-optation as new Director of the Board, to replace Mr. Larry Quier, in accordance art. 2386 of Codice civile and art. 13.16 of the company statute until the next Shareholder meeting. During the same meeting, the Board of Directors, appointed Mr. Leonardo Rossi as Chief Financial Officer, attributing the functions, responsibilities and powers specified in point 4.5 of this Report. On April 10, 2019 the Shareholders meeting confirmed the appointment of Mr. Leonardo Rossi in office until the natural expiry of the management body and therefore until the Shareholders' Meeting to approve the financial statements at 31 December 2019. On the same date, the Board of Directors of MZBG resolved to appoint Mr. Leonardo Rossi as Director in charge of the Risk Management and Control System, confirming the attribution of the emoluments for the office of director and for the office of director SCIGR already resolved during the co-optation, and finally attributed to Dr. Leonardo Rossi the responsibility of the Responsible of the Inside Information Management Function.

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 Internal audit manager in executing his tasks. On May 9, 2019 the Board of Directors, after the favorable opinion of the Audit and Risk Committee, appointed Mrs. Roberta Andrea Polli as Head of Internal Audit function, in compliance with the recommendation of the Code the corporate Governance.

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 an Organization, Management and Control Model (the "Model") in accordance with the above-mentioned regulations and appointed the Supervisory Board, with the task of monitoring compliance and constantly updating it. The Model was subsequently updated on a regular basis in order to bring it into line with legislative changes and company needs.

Specifically, during the year, it was integrated pursuant to the Board of Directors' resolution of May 9, 2019 in order, *inter alia,* to comply with the provisions of Legislative Decree no. 107 of August 10, 2018, which adjusts national legislation to the provisions of Regulation (EU) no. 596/2014 on market abuse ("**MAR**"), and to reflect the coming into force of Law no. 3 of January 9, 2019, laying down "*Measures to fight crimes against the public administration, and on statute of limitation and transparency of political parties and movements"* . This Law also included the crime covered by article 346-*bis* of the Italian Criminal Code (trafficking in illegal influence) in the list of crimes which may trigger corporate liability pursuant to Decree no. 231/2001, thereby amending article 25 of the latter Decree.

The document was subsequently brought into line with the provisions (i) of Law no. 39 of May 3, 2019, laying down the "*Ratification and performance of the Council of Europe Convention on the manipulation of sports competitions, signed in Magglingen on September 18, 2014*" which extends the liability of entities pursuant to Decree no. 231/2001 to include fraud in sports competitions and illegal betting or gambling activities, by introducing article 25-*quaterdecies* in Decree no. 231 and (ii) of Decree Law no. 105 of September 21, 2019 on "*Urgent measures concerning national cyber-security*", which introduced a new predicate crime which may trigger corporate liability pursuant to Decree no. 231/2001 on 5G technology, as discussed during the Board of Directors' meeting of November 7, 2019.

Finally, following the coming into force of Law no. 157 of December 19, 2019, which introduced article 25-*quinquiesdecies* of Decree no. 231/2001 on tax crimes, the Company is working on the necessary updates to the Model, assisted by an independent consultant.

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 2019 - 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
Most 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 of December 31, 2019, 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, 2019 and 2018

The following table sets forth the reclassified income statement for the years ended December 31, 2019 and 2018.

	For the year ended December 31,				Change	
(in thousands of Euro)	**2019**	**(*)**	**2018**	**(*)**	**2019-2018**	
Revenue	12,326	100.0%	10,622	100.0%	1,704	16.0%
Raw, ancillary, and consumable materials and goods	(14)	-0.1%	(35)	-0.3%	21	-60.6%
Purchases of services, leases and rentals	(4,936)	-40.0%	(2,675)	-25.2%	(2,261)	84.5%
Personnel costs	(4,071)	-33.0%	(5,973)	-56.2%	1,902	-31.8%
Other operating costs, net[1]	(46)	-0.4%	(124)	-1.2%	77	-62.4%
***EBITDA*[2]**	**3,259**	**26.4%**	**1,816**	**17.1%**	**1,443**	79.5%
Amortization and depreciation	(689)	-5.6%	(738)	-6.9%	49	-6.7%
Operating profit	**2,571**	**20.9%**	**1,078**	**10.1%**	**1,493**	**>100%**
Net finance income[3]	7,219	58.6%	6,837	64.4%	382	5.6%
Profit before tax	**9,790**	**79.5%**	**7,915**	**74.5%**	**1,875**	**23.7%**
Income tax expense	(430)	-3.5%	(127)	-1.2%	(303)	>100%
Profit for the year	**9,360**	**76.0%**	**7,788**	**73.3%**	**1,572**	**20.2%**

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 of December 31, 2019

The following table shows the reclassified statement of financial position of the Parent as of December 31, 2019 and 2018.

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Investments:		
Intangible assets	5,079	1,944
Property, plant and equipment	13,239	13,272
Investments in subsidiaries	284,070	262,370
Non-current financial receivables	41,845	33,925
Deferred tax assets	4,632	3,889
Non-current assets	**348,865**	**315,400**
Net working capital(1)	**(4,077)**	**(3,121)**
Employee benefits	(405)	(354)
Deferred tax liabilities and other non-current liabilities(2)	(1,932)	(1,071)
Non-current liabilities	**(2,337)**	**(1,425)**
Net invested capital	**342,451**	**310,854**
Sources:		
Equity	162,406	160,082
Net Debt	180,045	150,772
Sources of financing	**342,451**	**310,854**

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 Debt

The following table sets forth a breakdown of Net Debt of the Parent at December 31, 2019 and 2018, determined in accordance with CONSOB communication dated July 28, 2006 and in compliance with the Recommendation ESMA/2013/319:

		As of December 31,	
	(in thousands of Euro)	**2019**	**2018**
A	Cash and cash equivalents	(4)	(2)
B	Cash at bank	(23,438)	(33,211)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(23,442)**	**(33,213)**
E	**Current financial receivables**	**(9,993)**	**(8,160)**
F	Current loans	8,000	6,000
G	Current portion of non-current loans	58,514	38,487
H	Other current financial payables	1,585	2,976
I	**Current debt (F+G+H)**	**68,099**	**47,463**
J	**Net current debt (I+E+D)**	**34,664**	**6,090**
K	Non-current loans	145,328	143,999
L	Issued bonds	-	-
M	Other non-current financial payables	53	683
N	**Non-current debt (K+L+M)**	**145,381**	**144,682**
O	**Net Debt (J+N)**	**180,045**	**150,772**
	of which due to third parties	*189,154*	*156,048*
	of which due to related parties	*(9,109)*	*(5,276)*

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 of December 31, 2019 *(in thousands of Euro)*	**Equity**	**Profit for the year**
Figures from the annual financial statements of Massimo Zanetti Beverage Group S.p.A.	**162,406**	**9,360**
Difference between carrying amount and pro rata value of shareholders’ equity of investments	190,606	-
Pro rata results of subsidiaries	-	25,638
Elimination of intercompany dividends	-	(19,659)
Elimination of intercompany profit	(2,575)	(27)
Currency translation differences	(13,030)	-
Figures from the consolidated financial statements	**337,407**	**15,312**

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, 2019 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, 2019,

hereby resolves:

1. to approve the separate financial statements of Massimo Zanetti Beverage Group S.p.A. at December 31, 2019;

2. to approve the following allocation of the net profit of Massimo Zanetti Beverage Group S.p.A. for 2019 totalling Euro 9,360,173 as follows:
   - Euro 468,009 to the legal reserve;
   - Euro 8,892,164 to retained earnings

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

For the Board of Directors

President and CEO

Massimo Zanetti

Villorba (Treviso), March 5, 2020

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2019

Consolidated Income Statement

(in thousands of Euro)	**Note**	**For the year ended December 31, 2019**	**2018**
Revenue	**21**	914,465	891,203
Other income	**22**	6,101	6,954
Raw, ancillary, and consumable materials and goods	**23**	(506,775)	(502,407)
Purchases of services, leases and rentals	**24**	(174,408)	(174,125)
Personnel costs	**25**	(152,039)	(142,316)
Other operating costs	**26**	(5,937)	(6,314)
Amortization, depreciation and impairment	**27**	(47,426)	(36,605)
Operating profit		**33,981**	**36,390**
Finance income	**28**	795	337
Finance costs	**28**	(9,504)	(7,596)
Share of losses of companies accounted for using the equity method		(863)	(879)
Profit before tax		**24,409**	**28,252**
Income tax expense	**29**	(9,097)	(8,355)
Profit for the year		**15,312**	**19,897**
Profit attributable to:			
Non-controlling interests		*140*	*105*
Owners of the parent		*15,172*	*19,792*
Basic/diluted earnings per share (in Euro)	**30**	**0.44**	**0.58**

Consolidated Statement of Comprehensive Income

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Profit for the period	**15,312**	**19,897**
Gains/(Losses) from cash flow hedges	2,991	774
Currency translation differences	7,657	5,936
Items that may be subsequently reclassified to profit or loss	**10,648**	**6,710**
Remeasurements of employee benefit obligations	(544)	129
Items that will not be reclassified to profit or loss	**(544)**	**129**
Total comprehensive income/(loss) for the year	**25,416**	**26,736**
Comprehensive income attributable to non-controlling interests	142	92
Comprehensive income/(loss) attributable to owners of the parent	**25,274**	**26,644**

Consolidated Statement of Financial Position

(in thousands of Euro)	Note	As of December 31, 2019	As of December 31, 2018
Intangible assets	**7**	227,016	182,799
Property, plant and equipment	**8**	265,436	215,127
Investment properties	**9**	4,934	4,771
Investments in joint ventures, associates and other	**10**	11,166	10,404
Non-current trade receivables	**11**	2,949	2,542
Deferred tax assets	**12**	12,908	11,828
Non-current contract assets		7,505	6,781
Other non-current assets	**13**	15,010	6,574
Total non-current assets		**546,924**	**440,826**
Inventories	**14**	154,525	131,649
Trade receivables	**11**	114,635	120,832
Income tax assets		3,512	3,271
Current contract assets		3,317	3,759
Other current assets	**13**	19,271	15,572
Cash and cash equivalents	**15**	94,846	93,491
Total current assets		**390,106**	**368,574**
Total assets		**937,030**	**809,400**
Share capital		34,300	34,300
Other reserves		103,914	99,396
Retained earnings		197,308	183,069
Total equity attributable to owners of the Parent		**335,522**	**316,765**
Non-controlling interests		1,885	1,883
Total equity	**16**	**337,407**	**318,648**
Non-current borrowings	**17**	219,869	175,300
Employee benefits	**18**	10,491	8,822
Other non-current provisions	**19**	3,039	3,190
Deferred tax liabilities	**12**	29,205	26,863
Non-current contract liabilities		418	483
Other non-current liabilities	**20**	3,627	2,539
Total non-current liabilities		**266,649**	**217,197**
Current borrowings	**17**	143,498	96,637
Trade payables		155,238	144,292
Income tax liabilities		2,531	1,664
Current contract liabilities		1,817	946
Other current liabilities	**20**	29,890	30,016
Total current liabilities		**332,974**	**273,555**
Total liabilities		**599,623**	**490,752**
Total equity and liabilities		**937,030**	**809,400**

Consolidated Statement of Cash Flows

(in thousands of Euro)	Note	For the year ended December 31, 2019	2018
Profit before tax		**24,409**	**28,252**
Adjustments for:			
Amortization, depreciation and impairment	**27**	47,426	36,605
Provisions for employee benefits and other charges	**26**	630	1,102
Net finance expense	**28**	8,709	7,259
Other non-monetary items		276	(1,048)
Net cash generated from operating activities before changes in net working capital		**81,450**	**72,170**
Changes in inventories	**14**	(19,554)	(1,378)
Changes in trade receivables	**11**	7,996	(832)
Changes in trade payables		8,644	2,245
Changes in other assets/liabilities	**13/20**	(1,363)	(2,775)
Payments of employee benefits	**18**	(410)	(776)
Interest paid	**28**	(6,325)	(5,688)
Income tax paid		(8,513)	(8,340)
Net cash generated from operating activities		**61,925**	**54,626**
Acquisition of subsidiary, net of cash acquired	**5**	(43,132)	-
Purchase of property, plant and equipment	**8**	(31,041)	(29,806)
Purchase of intangible assets	**7**	(5,348)	(2,784)
Proceeds from sale of property, plant and equipment	**8**	864	1,005
Proceeds from sale of intangible assets	**7**	17	18
Investments in joint ventures and associates	**10**	(1,500)	(1,200)
Changes in financial receivables		3,499	(1,528)
Interest received		147	165
Net cash used in investing activities		**(76,494)**	**(34,130)**
Proceeds from long-term borrowings	**17**	66,175	15,360
Repayment of long-term borrowings	**17**	(45,628)	(24,235)
Increase / (decrease) in short-term borrowings		11,110	(3,156)
Changes in lease receivable and liabilities		(10,086)	-
Dividends paid	**16**	(6,657)	(5,999)
Net cash (used)/generated from financing activities		**14,914**	**(18,030)**
Exchange gains/(losses) on cash and cash equivalents		1,010	1,431
Net increase in cash and cash equivalents		**1,355**	**3,897**
Cash and cash equivalents at the beginning of the period		93,491	89,594
Cash and cash equivalents at the end of the period		**94,846**	**93,491**

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 of December 31, 2017	**34,300**	**98,162**	**166,443**	**298,905**	**1,977**	**300,882**
Effect of the first application of IFRS 9	-	-	(2,953)	(2,953)	(17)	**(2,970)**
As at 1 January 2018	**34,300**	**98,162**	**163,490**	**295,952**	**1,960**	**297,912**
Profit for the year	-	-	19,792	19,792	105	**19,897**
Remeasurements of employee benefit obligations	-	-	123	123	6	**129**
Gain from cash flow hedges	-	774	-	774	-	**774**
Currency translation differences	-	5,955	-	5,955	(19)	**5,936**
Total income for the period	**-**	**6,729**	**19,915**	**26,644**	**92**	**26,736**
Shareholders transactions						
Dividends paid	-	(5,831)	-	(5,831)	(168)	**(5,999)**
Reclassifications	-	336	(336)	-	-	**-**
As of December 31, 2018	**34,300**	**99,396**	**183,069**	**316,765**	**1,883**	**318,648**
Profit for the year	-	-	15,172	15,172	140	**15,312**
Remeasurements of employee benefit obligations	-	-	(544)	(544)	-	**(544)**
Gain from cash flow hedges	-	2,991	-	2,991	-	**2,991**
Currency translation differences	-	7,655	-	7,655	2	**7,657**
Total income for the period	**-**	**10,646**	**14,628**	**25,274**	**142**	**25,416**
Shareholders transactions						
Dividends paid	-	(6,517)	-	(6,517)	(140)	**(6,657)**
Reclassifications	-	389	(389)	-	-	**-**
As of December 31, 2019	**34,300**	**103,914**	**197,308**	**335,522**	**1,885**	**337,407**

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 S.p.A., 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, 2019 (the "**Consolidated Financial Statements**"), approved by the Parent's Board of Directors on March 5, 2020, have been prepared on a going concern basis. Management has confirmed the absence of any financial, operational or other indicator that might call into question the ability of the Group to meet its obligations in the foreseeable future and, in particular, over the next twelve months. The approach adopted by the Group for the management of financial risks is discussed in note 3 - "*Management of financial risks*" below.

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

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

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

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

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

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

2.2. Scope of Consolidation and Changes

The companies included within the scope of consolidation at December 31, 2019 and 2018 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, 2019 and 2018.

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 venture 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 venture 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)	**2019**	**2018**
Assets	73,809	56,243
Liabilities	47,707	35,582
Revenue	148,882	133,513
Loss for the year	5,727	2,336

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, 2019 and 2018:

Currency		**Average exchange rate**		**Exchange rate as of December 31,**		
		2019	**2018**	**2019**	**2018**	**2017**
US Dollar	USD	1.12	1.18	1.12	1.15	1.20
United Arab Emirates Dinar	AED	4.11	4.34	4.13	4.21	4.40
Argentine Peso	ARS	53.82	32.91	67.27	43.16	22.93
Australian Dollar	AUD	1.61	1.58	1.60	1.62	1.53
Brazilian Real	BRL	4.41	4.31	4.52	4.44	3.97
Canadian Dollar	CAD	1.49	1.53	1.46	1.56	1.50
Swiss Franc	CHF	1.11	1.16	1.09	1.13	1.17
Chilean Peso	CLP	786.89	756.94	844.86	794.37	737.29
Costarican Colon	CRC	657.62	681.44	642.01	694.77	682.85
Czech Koruna	CZK	25.67	25.65	25.41	25.72	25.54
Danish Crown	DKK	7.47	7.45	7.47	7.47	7.44
Renminbi (Yuan)	CNY	7.74	7.81	7.82	7.88	n.a.
British Pound	GBP	0.88	0.88	0.85	0.89	0.89
Hong Kong Dollar	HKD	8.77	9.26	8.75	8.97	9.37
Croatian Kuna	HRK	7.42	7.42	7.44	7.41	7.44
Hungarian Forint	HUF	325.30	318.89	330.53	320.98	310.33
Indonesian Rupiah	IDR	15,835.27	16,803.22	15,595.60	16,500.00	16,239.12
Japanese Yen	JPY	122.01	130.40	121.94	125.85	135.01
Mexican Peso	MXN	21.56	22.71	21.22	22.49	23.66
Malaysian Ringgit	MYR	4.64	4.76	4.60	4.73	4.85
Maldivian Rufiyaa	MVR	17.22	n.a	17.28	n.a	n.a
New Zealand Dollar	NZD	1.70	1.71	1.67	1.71	1.69
Polish Zloty	PLN	4.30	4.26	4.26	4.30	4.18
Romanian Leu	RON	4.75	4.65	4.78	4.66	4.66
Singapore Dollar	SGD	1.53	1.59	1.51	1.56	1.60
Thai Baht	THB	34.76	38.16	33.42	37.05	39.12
Vietnamese Dong	VND	26,003.00	27,180.00	26,033.00	26,547.00	27,233.00

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

For all leases with a term of more than 12 months, except for those related to assets with a low unit value, an entity shall recognise an asset and a liability, representing the right to use the underlying asset and the obligation to make contract payments, respectively.

More precisely, the right of use the asset is 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 or renewal option, 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.

The amount at December 31, 2018 are recognized considering the previous distinction between finance lease, whereby the risks and rewards of ownership are transferred to the Group, and operative leasing whereby the risks and rewards of ownership are not transferred.

Financial leases are accounted based on what previously described, while for those leasing classified as operative lease, instalments are charged to the income statement on a straight-line basis over the lease term.

Biological assets

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

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

Investment properties

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

Intangible assets

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

(a) Goodwill and trademarks with an indefinite useful life

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

(b) Other intangible assets with a finite useful life

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

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

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

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

Impairment of intangible assets and property, plant and equipment

(a) Goodwill and trademarks with an indefinite useful life

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

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

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

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

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

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

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

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

Trade receivables and other financial assets

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

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

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

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

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

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

Inventories

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

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

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

Cash and cash equivalents

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

Non-current assets held for sale

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

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

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

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

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

Borrowings and other financial liabilities

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

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

Derivative instruments and hedging activities

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

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

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

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

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

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

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

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

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

Employee benefits

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

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

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

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

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

Provisions

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

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

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

Trade payables and other liabilities

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

Revenue recognition

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

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

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

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

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

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

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

Cost recognition

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

Taxation

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

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

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

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

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

Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

Financial Reporting in Hyperinflationary Economies

In the case, one country where a company of the Group is based, was identified on the basis of international financial reporting standards (IFRS) as and hyperinflationary economy, the principle IAS 29 "*Financial Reporting in Hyperinflationary Economies*" was applied. The management has verified that the application of this financial standards does not imply significant impact on the financial statement as December 31, 2019.

2.5. Impacts from new accounting standards

IFRS 16

IFRS 16 "Leases" eliminates the difference between operating and finance leases for the purposes of the preparation of lessees' financial statements. For all leases with a term of more than 12 months, except for those related to assets with a low unit value, an entity shall recognise an asset and a liability, representing the right to use the underlying asset and the obligation to make contract payments, respectively. Conversely, for the purposes of lessors' financial statements preparation, the difference between operating and finance leases is maintained. IFRS 16 strengthens disclosure requirement for both lessors and lessees.
Starting from January 1, 2019 the Group applied IFRS 16 using the simplified approach, which does not require the restatement and recalculation of the accounting balances prior to the application of the standard. Specifically, the right-of-use asset is equal to the carrying amount of the related liability at the date of first-time adoption, adjusted to reflect the prepayments and accrued expenses related to back- and front-loaded lease payments recognised on January 1, 2019.

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

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as "Short-term leases";
- The accounting for operating leases for which the underlying asset is low value as "Low value leases";
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- The use of hindsight in determine the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessments made applying IAS 17 – Leasing and IFRIC 4 - Determining whether an Arrangement contains a Lease.

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

The discount rate used to measure the carrying amount of lease liabilities considers the country and currency risks, the lease term and the Group's credit risk. The weighted average lessee's discount rate used by the Group to measure the carrying amount of lease liabilities on January 1, 2019 was 3.74%.

The table here below shows the reconciliation between operating lease commitments disclosed as at December 31, 2018 in the note 31 - *"Commitments"* and the amount of the lease liability recognised as at January 1, 2019:

(in thousands of Euro)	As of January 1, 2019
Operating lease commitments as at December 31, 2018	50,154
Discount effects	(6,124)
Finance lease liabilities as at December 31, 2018	4,246
Short-term leases recognized as expense	(1,316)
Low-value leases recognized as expense	(246)
Contracts reassessed as service agreements	(16,505)
Adjustments as a result of a different treatment of extension and termination option	17,394
Adjustments relating to changes in the index or rate affecting variable payments	1,046
Lease liability recognized as at January 1, 2019	**48,649**
Of which:	
-non-current lease financial liability	*37,906*
-current lease financial liability	*10,744*

The amount "Contracts reassessed as service agreements" includes the portion of commitments disclosed as at December 31, 2018 that were not recognized as lease component as they relate to maintenance service of tangible asset subject to operating lease contracts.

As mentioned above, when reporting the impact from the first adoption of IFRS 16, the Group has used the "modified retrospective method". According to this method, the cumulated effects related to the implementation of the new standard are recorded in the "Retained Earnings" as at January 1, 2019, without presenting the comparative amounts, as shown in the following table:

	As of December 31,	IFRS 16 effects	As of January 1,
(in thousands of Euro)	2018		2019
Asset			
Property, plant and equipment	215,127	34,098	249,225
Other non-current assets	6,574	8,629	15,203
Other current assets	15,572	1,677	17,249
Liability			
Non-current borrowings	(175,300)	(35,402)	(210,702)
Current borrowings	(96,637)	(9,001)	(105,638)

"Other non-current asset" and "Other current asset" refers to some sub-leasing contracts that, due to the adoption of IFRS 16, are qualified as finance lease and for those the Group accounts lease financial receivable instead of the relative right-of-use.

Lease contracts recognized by the Group refers to property, plant and equipment as well as other non-current assets, mainly vehicles.

The application of IFRS 16 in the Consolidated Financial Statements as at December 31, 2019 increase the EBITDA of Euro 10,251 thousand, due to the reduction of use of third-party costs for Euro 12,618 thousand partially compensated by the decrease of revenue for renting activity of Euro 2,367 thousand due to subleasing contracts recognized as finance lease.

The application of IFRS 16 increase also the amount of depreciation of the right-of-use accounted among the depreciation of tangible asset for Euro 9,284 thousand as well as, the amount of finance income and expense for interests calculated on lease liabilities and lease receivables for net Euro 1,290 thousand.

2.6. Recently Issued Accounting Standards

Accounting standards issued but not yet effective as not endorsed by the European Union

At the reporting date, the competent bodies of the EU had not yet completed the endorsement process necessary to apply the following standards and amendments:

- *IFRS 17 "Insurance Contracts"*. On May 18, 2017, the IASB published IFRS 17 "Insurance contracts" which governs the recognition, measurement, presentation and disclosure of the insurance contracts issued and the reinsurance contracts held.
  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.

- *Amendments to IFRS 3 "Business Combinations"*. On October 22, 2018, the IASB issued an amendment to IFRS 3 which clarifies the definition of "business" and provides additional guidance on the preparation of financial statements. The amendments assist companies in determining the target of an acquisition, by distinguishing between a business or a group of assets.
  The amendment to IFRS 3 is effective for annual periods beginning on or after January 1, 2020.

- *Amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current"*. On October 22, 2018, the IASB issued an amendment to IFRS 3 which clarifies the definition of "business" and provides additional guidance on the preparation of financial statements. The amendments assist companies in determining the target of an acquisition, by distinguishing between a business or a group of assets.
  The amendment to IFRS 3 is effective for annual periods beginning on or after January 1, 2020.

The provisions introduced by the coming into force of the above standards are not expected to have any material financial impact on the Group. In any case, the Group did not opt for the early adoption of accounting standards and amendments which will become effective in future years.

Accounting standards, amendments and interpretations not yet adopted, but that are available for early application

At the reporting date, the competent bodies of the EU had approved the adoption of the following accounting standards and amendments, not yet adopted by the Company:

- *Amendments to IAS 1 e IAS 8 "Definition of Material"*. On October 31, 2018, the IASB issued some amendments to IAS 1 and IAS 8 to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS.
  The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after January 1, 2020.

- *Amendments to IFRS 9, IAS39 e IFRS7 "Interest Rate Benchmark Reform"*. On October 31, 2018, the IASB issued some amendments to IAS 1 and IAS 8 to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS.
  The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after January 1, 2020.

- *Amendments to "References to the Conceptual Framework in IFRS Standards".* On October 31, 2018, the IASB issued some amendments to IAS 1 and IAS 8 to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS.
  The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after January 1, 2020.

The Group is analyzing the above standards and is considering whether their adoption will have a significant impact on the financial statements.

2.7. Significant Non-Recurring Events and Transactions

In accordance with Consob Communication dated July 28, 2006, it is noted that the Group's financial performance for 2019 was affected by non-recurrent costs mainly related to reorganizational plans in order to increase the efficiency of its business activities. These costs amounted to Euro 3,538 thousand and refers mainly to *i)* cost for services Euro 2,850 thousand *ii)* personnel costs Euro 429 thousand *iii)* other operating costs Euro 259 thousand.

The Group's financial performance for 2018 was affected by non-recurring costs of Euro 2,494 thousand related to the increase of efficiency activity in Europe. These costs refer mainly to *i)* cost for services Euro 1,194 thousand *ii)* personnel costs Euro 670 thousand *iii)* other operating costs Euro 630 thousand.

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, 2019 totalled Euro 99,205 thousand (Euro 96,290 thousand at December 31, 2018). The interest rate swaps outstanding at December 31, 2019 has a negative fair value of Euro 2,020 thousand (negative fair value of Euro 1,426 thousand at December 31, 2018).

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, 2019 and 2018. Where necessary, interest rate swaps are entered into to turn it to fixed interest rates. During 2019, 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 51% to 55% at December 31, 2018 and 2019, respectively.

An increase/decrease of 1% (100 basis points) in floating interest rates, compared to those applicable at December 31, 2019 and 2018, 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 1,328 thousand in 2019 and Euro 1,125 thousand in 2018.

Exchange rate risk

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

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

The notional value of forward contracts outstanding at December 31, 2019 was Euro 21,097 thousand (Euro 31,852 thousand at December 31, 2018). Forward contracts outstanding at December 31, 2019 had a positive fair value of Euro 532 thousand (negative fair value of Euro 1,150 thousand at December 31, 2018).

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

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

Price risk of green coffee

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

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

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

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

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

The Group's contractual obligations for which the own use exemption conditions applied, amounted to Euro 157,316 thousand at December 31, 2019 (Euro 190,992 thousand at December 31, 2018).

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, 2019 and 2018:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Mass Market	57,230	63,864
Foodservice	43,113	46,443
Others	17,241	13,068
Total	**117,584**	**123,374**
of which		
Trade receivables	*114,635*	*120,832*
Non-current advances and trade receivables	*2,949*	*2,542*

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

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

Others: Trade receivables due from other customers.

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

The following table sets forth an ageing analysis of current and non-current trade receivables at December 31, 2019 and 2018, net of the provision for impairment:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Not due	90,199	95,973
Past due 0-90 days	18,820	17,860
Past due 91-180 days	2,137	2,816
Past due over 180 days	6,428	6,725
Total	**117,584**	**123,374**

The Group has applied the simplified approach envisaged by IFRS9 in order to assess the recoverability of its own trade receivables. The adjustment to the estimates done before, takes into account the default risk in trade receivables, through a differentiated " expected default rate" which is applied to classes of trade receivables homogeneous in terms of risk profile and maturity or, for those in arrears, in terms of the actions taken to recover the credit.

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

Liquidity risk

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

At December 31, 2019, the Group had credit lines totalling Euro 235,782 thousand (Euro 236,783 thousand at December 31, 2018), arranged with various banks to cover overdraft requirements.

The undrawn portion of such credit lines at December 31, 2019 totalled Euro 176,194 thousand (Euro 189,732 thousand at December 31, 2018).

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, 2019 and 2018:

As of December 31, 2019 *(in thousands of Euro)*	**Carrying amount**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	363,367	146,465	202,859	21,587
Derivatives on interest rates	2,021	413	1,608	-
Trade payables and other liabilities	157,238	156,068	1,170	-
Total	**522,626**	**302,946**	**205,637**	**21,587**

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

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, 2019 and 2018, 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, 2019 and 2018:

As of December 31, 2019 *(in thousands of Euro)*	**Financial instruments at amortized cost**	**Financial instruments at fair value**	**Hedging derivatives at fair value**	**Total financial assets / liabilities**	**Total non - financial assets / liabilities**	**Total**
Assets						
Current trade receivables and non-current trade receivables	117,584	-	-	**117,584**	-	**117,584**
Other current and non-current assets	18,609	-	4,214	**22,823**	11,458	**34,281**
Cash and cash equivalents	94,846	-	-	**94,846**	-	**94,846**
Total assets	**231,039**	**-**	**4,214**	**235,253**	**11,458**	**246,711**
Liabilities						
Current and non-current borrowings	363,367	-	-	**363,367**	-	**363,367**
Trade payables	155,238	-	-	**155,238**	-	**155,238**
Other Current and Non-Current Liabilities	2,000	1,214	807	**4,021**	29,496	**33,517**
Total liabilities	**520,605**	**1,214**	**807**	**522,626**	**29,496**	**552,122**

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

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 of December 31, 2019 *(in thousands of Euro)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Derivatives on commodities	-	3,682	-	3,682
Derivatives on exchange rates		532	-	532
Total	**-**	**4,214**	**-**	**4,214**
Liabilities				
Derivatives on commodities		-	-	-
Derivatives on interest rates		2,021	-	2,021
Total	**-**	**2,021**	**-**	**2,021**

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

The fair value of derivatives at December 31, 2019 and 2018 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, 2019 and 2018. 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 carries forwards 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

On February 1, 2019 the Group has finalized, through its Swiss subsidiary, the acquisition of the business and asset of a group of companies based in Melbourne known as “The Bean Alliance” strengthening its presence in the Australian market. The purchase price of Euro 19,945 thousand, includes the potential earn-out to be paid in three annual instalments, starting from January 31, 2020, on the occurrence of specific annual qualitative and quantitative targets.

With reference to these acquisitions, the table below shows the comparison between the consideration paid and the net asset acquired:

(in thousands of Euro)	**Fair value**
Intangible assets	6,912
Property, plant and equipment	2,335
Inventories	1,250
Deferred tax assets	295
Employee benefits	(326)
Non-current borrowings	(1,391)
Current borrowings	(133)
Other current liabilities	(417)
Net asset acquired	**8,525**
Consideration paid comprehensive of the earn-out	(19,945)
Goodwill	**(11,420)**

On February 11, 2019 Massimo Zanetti Beverage Iberia has completed the acquisition of the Portuguese companies Cafés Nandi SA. and Multicafès Industria de Cafè, near to Lisbon, for a total consideration of Euro 6,575 thousand.

The table below shows the comparison between the consideration paid and the net asset acquired:

(in thousands of Euro)	**Fair value**
Intangible assets	34
Property, plant and equipment	4,302
Non-current contract assets	21
Other non-current assets	2
Inventories	313
Trade receivables	67
Other current assets	18
Cash and cash equivalents	416
Non-current borrowings	(74)
Deferred tax liabilities	(515)
Other non-current liabilities	(12)
Current borrowings	(32)
Trade payables	(20)
Other current liabilities	(93)
Net asset acquired	**4,427**
Consideration paid	(6,575)
Goodwill	**(2,148)**

On April 2019 the Group finalized the acquisition of Bon Beverage Maldives private limited, a local distributor in Maldives, which generated a goodwill of Euro 159 thousand.

On October 10, 2019 the Group has finalized, through its Brazilian subsidiary Segafredo Zanetti (Brasil) Com. distr. de Cafè S.A, the acquisition of Cafè Pacaembu Ltd and Pacaembu Holding Ltd, based in Vargem Grande do Sul in Brasil, strengthening its presence in South America. The acquisition price was Euro 25,331 thousand.

The table below shows the comparison between the consideration paid and the net asset acquired:

(in thousands of Euro)	**Book value**
Intangible assets	151
Property, plant and equipment	4,876
Investments in joint ventures, associates and other	13
Deferred tax assets	80
Inventories	1,145
Trade receivables	2,379
Other current assets	360
Cash and cash equivalents	504
Non-current borrowings	(335)
Deferred tax liabilities	(416)
Current borrowings	(2,106)
Trade payables	(1,144)
Income tax liabilities	(110)
Other current liabilities	(464)
Net asset acquired	**4,933**
Consideration paid	(25,331)
Provisional goodwill	**(20,398)**

There were no investments in business combination in 2018.

6 Operating Segments

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

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

7 Intangible Assets

The item can be broken down as follows:

(in thousands of Euro)	Goodwill	Trademarks, licenses, and similar	Customer related assets	Software and other immaterial assets	Asset under construction	Total
As of December 31, 2017	**114,438**	**62,427**	**2,926**	**3,320**	**120**	***183,231***
Of which:						-
- historical cost	*114,438*	*71,568*	*5,184*	*19,638*	**120**	***210,948***
- accumulated depreciation	-	*(9,141)*	*(2,258)*	*(16,318)*	-	***(27,717)***
Capital expenditure	-	86	7	595	2,096	**2,784**
Disposals	-	-	-	(18)	-	**(18)**
Amortization	-	(3,054)	(659)	(1,481)	-	**(5,194)**
Reclassification	-	-	-	348	(348)	-
Exchange differences	1,264	631	68	36	(3)	**1,996**
As of December 31, 2018	**115,702**	**60,090**	**2,342**	**2,800**	**1,865**	**182,799**
Of which:						
- historical cost	*115,702*	*71,847*	*5,330*	*20,877*	*1,865*	***215,621***
- accumulated depreciation	-	*(11,757)*	*(2,988)*	*(18,077)*	-	***(32,822)***
Change in scope of consolidation	*34,125*	*1,736*	*5,176*	*167*	*18*	**41,222**
Capital expenditure	-	45	1,028	434	3,841	**5,348**
Disposals	-	(16)	-	(1)	-	**(17)**
Amortization	-	(3,090)	(1,087)	(1,381)	-	**(5,558)**
Reclassification	-	-	-	340	(340)	-
Exchange differences	2,675	723	(39)	(137)	-	**3,222**
As of December 31, 2019	**152,502**	**59,488**	**7,420**	**2,222**	**5,384**	**227,016**
Of which:						
- historical cost	*152,502*	*74,500*	*11,526*	*20,777*	*5,384*	***264,689***
- accumulated depreciation	-	*(15,012)*	*(4,106)*	*(18,555)*	-	***(37,673)***

Intangible assets at December 31, 2019 substantially composed of goodwill, which amount at December 31, 2019, 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, 2018);
- 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 3,212 thousand (Euro 3,151 thousand at December 31, 2018);
- acquisition in 2010, through the Australian subsidiary, of Espresso Italia Ltd for which goodwill amounted to Euro 4,721 thousand (Euro 4,655 thousand at December 31, 2018);
- acquisition in 2014 of Boncafe for which goodwill amounted to Euro 37,285 thousand (Euro 34,893 thousand at December 31, 2018);
- acquisition in 2016 of Nutricafés for which goodwill amounted to Euro 41,191 thousand (the same amount of goodwill was reported at December 31, 2018);
- acquisition in 2017 of the Tru Blue business line for which goodwill amounted to Euro 1,492 thousand (Euro 1,472 thousand was reported at December 31, 2018);

- acquisition in 2019 of the business and asset of a Group of companies called "The Bean Alliance Group" for which result a goodwill to Euro 11,273 thousand;
- acquisition in 2019 of the companies Cafés Nandi S.A. and Multicafès Industria de Cafè for which result a goodwill to Euro 2,148 thousand; and
- acquisition in 2019 of the companies Café Pacaembu Ltda and Pacaembu Holding Ltda for which result a temporary goodwill to Euro 20,411 thousand.

Trademarks, licenses and similar rights principally include:

i) the "Chase & Sanborn", "Chock full o'Nuts", "Hills Bros" and "MJB" trademarks held by MZB USA, amounting to approximately Euro 7,209 thousand at December 31, 2019 (Euro 7,073 thousand at December 31, 2018) 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 9,293 thousand at December 31, 2019 (Euro 9,923 thousand at December 31, 2018). Such trademarks were acquired from MZ Industries by Massimo Zanetti Beverage S.A. and Segafredo Zanetti Espresso Worldwide Ltd respectively, on September 25, 2014 on the basis of the appraisal of Studio Bugnion S.p.a. During 2018 the Massimo Zanetti Beverage S.A. sold to Segafredo Zanetti Espresso Worldwide Ltd the trademarks Puccino at its net book value.

iii) the Boncafe family of trademarks amounting to Euro 12,674 thousand at December 31, 2019 (Euro 13,121 thousand at December 31, 2018);

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 Euro 2,542 thousand at December 31, 2019 (Euro 2,503 thousand at December 31, 2018);

v) the "Cafè Nicola" and "Chave D'Ouro" trademarks, with a finite useful life, with a carrying amount of Euro 26,000 thousand at December 31, 2019 (Euro 27,200 at December 31, 2018); and

vi) the "Bean Ground and Drunk", "Monte" and "Gravity"trademarks, with a finite useful life, deriving from the acquisition of "The Bean Alliance Group" with a carrying amount of Euro 1,651 thousand.

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 27, 2020 are broadly in line with the forecast market growth for each CGU, considering volume, price and market. Management determined expected CGU cash flows in line with forecast levels of revenues and EBITDA based on past performance and expected economic and market trends. The business plan includes projections for the level of revenues, investment and margins, as well as for the trends in the principal market variables, such as inflation, nominal interest rates and exchange rates.

- Expected cash flows, which reflect the results of normal business plus depreciation and amortization less the cost of expected investments, include a terminal value to estimate the value of future results for the years subsequent to the 3-year period (2020-2022) 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, 2019, 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, 2019.

As of December 31, 2019	**Americas**	**Northern Europe**	**Southern Europe**	**Asia-Pacific and Cafés**	**Group**
Recoverable amount / carrying amount	166%	392%	164%	132%	170%
WACC	6.34%	4.40%	5.12%	5.84%	5.72%
g-rate	2.30%	1.98%	1.62%	1.99%	2.02%

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 of December 31, 2019	Americas	Northern Europe	Southern Europe	Asia-Pacific and Cafés	Group
Recoverable amount / carrying amount (WACC +0.5%)	148%	324%	143%	117%	149%
Recoverable amount / carrying amount (g-rate -0.75%)	141%	301%	135%	111%	142%
Recoverable amount / carrying amount (EBITDA -7.5%)	145%	342%	137%	111%	144%

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

8 Property, Plant and Equipment

The table below shows the variation on Property, plant and equipment at December 31, 2019 and 2018:

(in thousands of Euro)	Land and buildings	Plant and machinery	Industrial and commercial equipment and other assets	Bar equipment	Asset under construction	Total
As of December 31, 2017	**77,099**	**64,484**	**22,013**	**47,000**	**2,234**	**212,830**
Of which:						
- historical cost	*118,801*	*147,345*	*79,495*	*178,093*	*2,234*	***525,968***
- accumulated depreciation	*(41,702)*	*(82,861)*	*(57,482)*	*(131,093)*	*-*	***(313,138)***
Capital expenditure	1,536	4,357	5,606	15,873	2,434	**29,806**
Disposals	(38)	(17)	(179)	(453)	-	**(687)**
Amortization	(1,574)	(7,095)	(5,541)	(15,342)	-	**(29,552)**
Reclassifications	748	657	1,051	108	(2,564)	**-**
Exchange differences	761	2,050	76	(215)	58	**2,730**
As of December 31, 2018	**78,532**	**64,436**	**23,026**	**46,971**	**2,162**	**215,127**
Of which:						
- historical cost	*121,830*	*154,894*	*80,931*	*182,209*	*2,162*	***542,026***
- accumulated depreciation	*(43,298)*	*(90,458)*	*(57,905)*	*(135,238)*	*-*	***(326,899)***
First application IFRS 16	29,469	22	4,600	7	-	**34,098**
Change in scope of consolidation	7,877	2,466	640	568	-	**11,551**
Capital expenditure	7,632	4,413	8,383	17,084	5,467	**42,979**
Disposals	(19)	(2)	(245)	(204)	-	**(470)**
Amortization	(10,318)	(7,209)	(7,520)	(15,770)	-	**(40,817)**
Remeasurement IFRS 16	529	-	(20)	-	-	**509**
Reclassifications	(230)	1,538	835	22	(2,453)	**(288)**
Exchange differences	716	1,135	247	605	44	**2,747**
As of December 31, 2019	**114,188**	**66,799**	**29,946**	**49,283**	**5,220**	**265,436**
Of which:						
- historical cost	*167,911*	*168,064*	*93,046*	*182,142*	*5,220*	***616,383***
- accumulated depreciation	*(53,723)*	*(101,265)*	*(63,100)*	*(132,859)*	*-*	***(350,947)***

Property, Plant and Equipment contain also the asset deriving from the application of IFRS 16 (considering also those assets previously recognized as finance lease under IAS 17) that at shown in the table below:

(in thousands of Euro)	As of December 31, 2019	As of January 1, 2019
Land and buildings	33,531	32,101
Plant and machinery	2,157	908
Industrial and commercial equipment and other assets	8,011	6,841
Bar equipment	25	38
Total	**43,724**	**39,888**

For further detail relating the adoption of IFRS 16 please refers to the note 2.5 – "*Impacts from new accounting standards*".

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	Building	Total
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)*
Increases	-	-	-
Amortization	-	(116)	(116)
As at December 31, 2018	**1,159**	**3,612**	**4,771**
Of which:			
- historical cost	*1,159*	*4,685*	*5,844*
- accumulated depreciation	*-*	*(1,073)*	*(1,073)*
Increases	-	-	-
Amortization	-	(125)	(125)
Reclassifications		*288*	288
As at December 31, 2019	**1,159**	**3,775**	**4,934**
Of which:			
- historical cost	*1,159*	*5,001*	*6,160*
- accumulated depreciation	*-*	*(1,226)*	*(1,226)*

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

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

10 Investments in joint ventures and associates

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

(in thousands of Euro)	**Investments in joint ventures and associates**
As at December 31, 2018	**10,404**
Change in scope of consolidation	13
Increases	1,500
Profit of the period	(863)
Exchange differences	112
As at December 31, 2019	**11,166**

The Group has made capital contributions for Euro 1,500 thousand and Euro 1,200 thousand, respectively in 2019 and 2018, to Virtus Pallacanestro Bologna S.S.D. a r.l., located in Bologna. As a result of the capital increase done in 2018, partially paid-up by other shareholders, the share held by the Group decreased from the former 40% to the current 37.09%.

11 Current and Non-Current Trade Receivables

The item can be broken down as follows:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Trade receivables and other receivables	127,843	136,763
Allowance for impairment of trade receivables	(13,208)	(15,931)
Total trade receivables	**114,635**	**120,832**
Non-current trade receivables and other receivables from customers	7,252	7,867
Non-current allowance for impairment of trade receivables	(4,303)	(5,325)
Total non-current trade receivables	**2,949**	**2,542**
Total current and non-current trade receivables	**117,584**	**123,374**

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**
As at December 31, 2018	**15,931**	**5,325**
Change in scope of consolidation	375	-
Accruals	689	644
Releases	(187)	(220)
Utilizations	(3,634)	(1,427)
Reclassifications	18	(18)
Exchange differences	16	(1)
As at December 31, 2019	**13,208**	**4,303**

12 Deferred Tax Assets and Liabilities

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

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
As at January 1	**(15,035)**	**(12,651)**
Of which:		
- deferred tax assets	*11,828*	*10,244*
- deferred tax liabilities	*(26,863)*	*(22,895)*
Charged to the income statement	(58)	(1,336)
Credited/(Charged) to the other comprehensive income	*(980)*	(429)
Change in scope of consolidation	*(185)*	-
First adoption IFRS 9	-	821
Reclassifications	*233*	(825)
Exchange differences	*(272)*	(615)
As at December 31	**(16,297)**	**(15,035)**
Of which:		
- deferred tax assets	*12,908*	*11,828*
- deferred tax liabilities	*(29,205)*	*(26,863)*

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 1,262 thousand net increase in deferred tax liabilities is mainly due to higher taxable profits of the Group.

13 Other Current and Non-Current Assets

The item can be broken down as follows:

	As of December 31,	
(in migliaia di Euro)	**2019**	**2018**
Guarantee deposits	2,403	2,225
Derivatives on exchange rates	18	100
Non current finance lease receivables	8,381	-
Non current financial receivables	485	361
Other non-current assets	3,723	3,888
Total other non-current assets	**15,010**	**6,574**
Financial receivables	1,994	3,728
Advances to suppliers and others	8,977	6,768
Other tax credits	2,481	1,630
Derivatives on exchange rates	514	1,050
Derivatives on commodities	3,682	-
Other current assets	1,623	2,396
Total other current assets	**19,271**	**15,572**

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.

Other current and Non-current asset includes also the financial receivable recorded following the application of IFRS 16 for some sub-leasing contracts recognized as financial. Please refer to the note 2.5 - "*Impact from new accounting standards*".

14 Inventories

The item can be broken down as follows:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Raw materials	70,830	58,047
Finished goods	80,429	70,495
Work in progress	3,266	3,107
Total	**154,525**	**131,649**

Inventories are stated net of the provision for obsolescence, amounting to Euro 1,984 thousand and Euro 1,214 thousand at December 31, 2019 and 2018 respectively. The accruals to these provisions for 2019 and 2018 amount to Euro 445 thousand and Euro 95 thousand, respectively.

15 Cash and cash equivalents

The item can be broken down as follows:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Cash at bank	93,738	92,527
Cash and cash equivalents	1,108	964
Total cash and cash equivalents	**94,846**	**93,491**

The following table sets for a breakdown of cash and cash equivalents by currency at December 31, 2019 and 2018:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Cash and cash equivalents denominated in Euro	41,469	48,360
Cash and cash equivalents denominated in USD	36,012	32,855
Cash and cash equivalents denominated in other currencies	17,365	12,276
Total cash and cash equivalents	**94,846**	**93,491**

16 Equity

Share capital

At December 31, 2019, the issued and fully paid-up share capital of the Parent amounted to Euro 34,300 thousand (Euro 34,300 thousand at December 31, 2018) 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 of December 31, 2017	**4,196**	**62,918**	**41,647**	**(1,441)**	**(8,578)**	**(580)**	**98,162**	**166,443**
First adoption IFRS 9	-	-	-	-	-	-	-	(2,953)
As at January 1, 2018	**4,196**	**62,918**	**41,647**	**(1,441)**	**(8,578)**	**(580)**	**98,162**	**163,490**
Remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**159**
Tax on remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**(36)**
Cash flow hedge: fair value gain/(losses) in the period	-	-	-	1,203	-	-	**1,203**	**-**
Tax on fair value gain/(losses) in the period from cash flow hedges	-	-	-	(429)	-	-	**(429)**	**-**
Currency translation differences	-	-	-	-	-	5,955	**5,955**	**-**
Dividends paid to non-controlling interests	-	-	(5,831)	-	-	-	**(5,831)**	**-**
Profit for the year	-	-	-	-	-	-	**-**	**19,792**
Reclassifications	336	-	-	-	-	-	**336**	**(336)**
As of December 31, 2018	**4,532**	**62,918**	**35,816**	**(667)**	**(8,578)**	**5,375**	**99,396**	**183,069**
Remeasurements of employee benefit obligations - gross	-	-	-	-	-	-	**-**	**(685)**
Tax on remeasurements of employee benefit obligations	-	-	-	-	-	-	**-**	**141**
Cash flow hedge: fair value gains in the period	-	-	-	3,971	-	-	**3,971**	**-**
Tax on fair value losses in the period from cash flow hedges	-	-	-	(980)	-	-	**(980)**	**-**
Currency translation differences	-	-	-	-	-	7,655	**7,655**	**-**
Dividends paid	-	-	(6,517)	-	-	-	**(6,517)**	**-**
Profit of the period	-	-	-	-	-	-	**-**	**15,172**
Reclassifications	389	-	-	-	-	-	**389**	**(389)**
As at December 31, 2019	**4,921**	**62,918**	**29,299**	**2,324**	**(8,578)**	**13,030**	**103,914**	**197,308**

The share premium reserve, amounting to Euro 62,918 thousand at December 31, 2019, 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, 2019 and 2018:

As at December 31, 2019 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	66,230	163,681	11,320	241,231
Short-term borrowings	55,027	-	-	55,027
Advances from factors and banks	6,672	-	-	6,672
Finance lease liabilities	12,942	28,511	10,162	51,615
Other financial liabilities	2,627	6,195	-	8,822
Total	**143,498**	**198,387**	**21,482**	**363,367**

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

Long-term borrowings

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

Interest rate	Year	Initial principal amount *(in thousands)*	As of December 31, 2019 *(in thousands)*	As of December 31, 2018 *(in thousands)*
denominated in Euro				
Euribor 3M + 1.25%	2015	12,000	5,667	7,000
Euribor 6M + 1%	2016	5,000	-	1,124
Euribor 3M + 1.10%	2016	15,000	4,963	8,333
Euribor 6M + 1.35%	2016	50,000	45,000	50,000
Euribor 6M + 0.90%	2016	9,000	3,998	7,328
Euribor 6M + 1.05%	2016	50,000	34,898	44,861
Euribor 6M + 0.9%	2016	10,000	5,017	9,998
Euribor 3M + 0.75%	2016	10,000	5,022	7,514
Euribor 6M +1%	2016	10,000	4,994	7,489
0,80%	2017	10,000	9,994	9,988
Euribor 3M +0.85%	2017	15,000	10,751	14,988
Euribor 3M +1.05%	2017	10,000	5,066	7,055
Euribor 3M +0.75%	2018	15,000	13,764	14,987
Euribor 3M +0.55%	2019	15,000	14,968	-
Euribor 6M+1.25%	2019	20,000	19,946	-
Euribor 6M+1.125%	2019	6,000	6,000	-
Euribor 3M+1.55%	2019	20,000	19,980	-
Euribor 6M+1.50%	2019	5,000	4,880	-
Other loans	-	-	3,966	2,607
		subtotal	**218,874**	**193,272**
denominated in USD				
6.5% Libor 3M + 7.5%	2015	3,000	1,389	1,703
Libor 3M + 1.50%	2017	30,000	20,969	23,064
		subtotal	**22,358**	**24,767**
Total			**241,231**	**218,039**
of which non-current			*175,001*	*172,796*
of which current			*66,230*	*45,243*

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

- cross-defaults: such 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.

In the period under analysis, the loans bind the Group to respect certain operational and financial covenants, which are respected at December 31, 2019 and 2018. Consequently, there are no events of default to be reported.

Within the scope of the ordinary fund-raising activities, the Group entered into these medium-to-long term loan agreements during the period ended December 31, 2019:

- with Monte dei Paschi di Siena, in February 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2026;
- with Banco Comercial Portugues, in February 2019 for an overall amount of Euro 6,000 thousand reaching maturity in 2025;
- with Credito Valtellinese in February 2019 for an overall amount of Euro 15,000 thousand reaching maturity in 2026;
- with UBI Banca in September 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2023;
- with Banca Nazionale del Lavoro, in November, for an overall amount of Euro 30,000 thousand reaching maturity in 2024. As at December 31, 2019 the loan was utilized for Euro 5,000 thousand.

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

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Principal amount of long-term borrowings		
- at variable rate	231,981	208,754
- at fixed rate	10,000	10,000
Notional value of derivatives on interest rates	99,205	96,290
Long-term borrowings converted at fixed rate	45%	49%
Remaining portion of long-term borrowings at variable rate	55%	51%
Long-term borrowings denominated in Euro	91%	89%
Long-term borrowings denominated in USD	9%	11%

In order to reduce the Group’s exposure to interest rate fluctuations, during the 2019, the Group enter into an interest rate swap for an amount of Euro 20,000 thousand for which applied the requirements for hedge accounting set forth by IFRS 9 “Financial instruments: recognition and valuation”.

In addition to this, there is an interest rate swap to hedge a notional amounting to Euro 10,682 thousand at December 31, 2019 (Euro 11,790 thousand at December 31, 2018) accounted for as hedge accounting.

Except of what here disclosed, the interest rate swap contracts signed and used by the Group to reduce the exposure to interest rate fluctuations, do not comply with the requirements for hedge accounting set forth by IFRS 9 “Financial instruments: recognition and valuation”.

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.

Finance lease liabilities

Finance lease liabilities equal to Euro 51,615 thousand, include in addition to the finance lease liabilities accounted till January 1, 2019 in accordance to IAS 17, also the lease liabilities recognized based on IFRS 16 and equal to Euro 49,121 thousand.
In fact, due to the adoption of IFRS 16, starting from January 1, 2019, for those contracts previously classified as operating leases, it has been necessary to recognize *i)* an asset, representative of the right-of-use and *ii)* a liability, representative of the obligation to make lease payments under the contract.

For more information please refer to note 2.5 – "*Impacts from new accounting standards*".

Net Debt

The following table sets forth a breakdown of the Group's Net Debt As of December 31, 2019 and 2018, 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 of December 31, 2019**	**As of December 31, 2018**
A	Cash and cash equivalents	(1,108)	(964)
B	Cash at bank	(93,738)	(92,527)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(94,846)**	**(93,491)**
E	**Current financial receivables**	**(1,994)**	**(3,728)**
F	Current loans	61,699	49,651
G	Current portion of non-current loans	66,230	45,243
H	Other current financial payables	15,569	1,743
I	**Current debt (F+G+H)**	**143,498**	**96,637**
J	**Net current debt (I+E+D)**	**46,658**	**(582)**
K	Non-current loans	175,001	172,796
L	Issued bonds	-	-
M	Other non-current financial payables	44,868	2,504
N	**Non-current debt (K+L+M)**	**219,869**	**175,300**
O	**Net Debt (J+N)**	**266,527**	**174,718**

The table below shows the reconciliation between Net Debt at December 31, 2018 and 2019:

(in thousands of Euro)	**Cash and cash equivalents**	**Current financial receivables**		**Current financial debt**	**Non-current financial debt**	**Total**
Net Debt at December 31, 2018	**(93,491)**	**(3,728)**		**96,637**	**175,300**	**174,718**
Effect of the first application of IFRS 16	-	(1,677)		9,001	35,402	**42,726**
Net Debt at January 01, 2019	**(93,491)**	**(5,405)**	-	**105,638**	**210,702**	**217,444**
Cash flows	(1,281)	3,690		-	-	**2,409**
Change in scope of consolidation	936	-		1,991	237	**3,164**
Proceeds from long-term borrowings	-	-		6,575	59,600	**66,175**
Repayment of long-term borrowings	-	-		(45,628)	-	**(45,628)**
(Decrease)/increase in short-term loans and borrowings	-	-		14,382	4,735	**19,117**
Currency effect	(1,010)	(13)		48	404	**(571)**
(Decrease)/increase in leasing liability due to IFRS 16		(266)		2,492	2,226	**4,452**
Reclassifications	-	-		58,001	(58,001)	-
Other non-monetary items	-	-		(1)	(34)	**(35)**
Net Debt at December 31, 2019	**(94,846)**	**(1,994)**		**143,498**	**219,869**	**266,528**

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 of December 31,	
(in thousands of Euro)	**2019**	**2018**
As at January 1	**8,822**	**8,987**
Service costs	865	643
Interest expenses	82	56
Benefits paid	(410)	(776)
Change in scope of consolidation	326	-
Remeasurements of employee benefits	685	(159)
Exchange differences	121	71
As at December 31	**10,491**	**8,822**

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

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	1.42%	3.27%
Demographic assumptions		
Probability of resignation	9.59%	8.75%
Probability of advance payments to employees	0.79%	0.63%

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 of December 31, 2019*		*As of December 31, 2018*	
Inflation rate	0.50%	53	(52)	52	(51)
Discount rate	0.50%	(97)	102	(89)	94
Demographic assumptions					
Probability of resignation	0.50%	(7)	7	6	(6)
Probability of advance payments to employees	0.50%	(7)	5	6	(5)

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, 2019	1,047	1,504	3,592	5,921	**12,064**
Expected benefits paid to employees at December 31, 2018	989	913	3,276	4,135	**9,313**

Should the US subsidiary decide to leave the multi-employer plan, the Company may still be required to make contributions to cover the benefits already earned. Based on the information available, the liability on ceasing membership of the plan would amount to approximately Euro 9,348 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, 2018	**1,658**	**1,532**	**3,190**
Accruals	35	84	**119**
Utilizations	(1)	(44)	**(45)**
Releases	(24)	(330)	**(354)**
Reclassification	(107)	248	**141**
Exchange differences	(1)	(11)	**(12)**
As at December 31, 2019	**1,560**	**1,479**	**3,039**

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 (CERT), 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), as required by the California Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65). In the first and second stage of the proceedings, the US subsidiary, Massimo Zanetti Beverage U.S.A. Inc., and the defendants summoned in the court case, were unsuccessful. Just before the beginning of the third stage of the proceedings, set for October 15, 2018, the Court of Appeal of California granted the company and the other operators a motion to stay, which resulted in the suspension of the proceedings following a new regulation issued by the government agency in charge of implementing Proposition 65. Under this regulation, the chemicals listed in Proposition 65 and included in coffee as a result of the roasting and preparation process do not pose a significant risk of cancer and, consequently, there is no requirement to communicate their presence. However, in 2019, the CERT summoned the above-mentioned government agency, alleging that it lacked the legal authority to issue such a regulation. Until this new dispute is resolved, the current proceedings will remain pending. According to management, the entire proceedings will be withdrawn. Consequently, no provisions were accrued in respect of the dispute.

20 Other Current and Non-Current Liabilities

The item can be broken down as follows:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Derivatives on interest rates	1,608	1,119
Derivatives on commodities	-	26
Non-current financial guarantee contracts	1,170	1,170
Other non-current liabilities	849	224
Total other non-current liabilities	**3,627**	**2,539**
Payables to personnel	10,155	10,071
Payables to social security institutions	4,326	4,088
Other tax payables	5,527	5,313
Current financial guarantee contracts	830	830
Payables to agents	785	797
Derivatives on interest rates	413	307
Derivatives on commodities	-	1,564
Other current liabilities	7,854	7,046
Total other current liabilities	**29,890**	**30,016**

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 favor 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, 2019, total loans disbursed to customers by Claris Factor SpA and covered by group guarantees, amounted to Euro 11,618 thousand (Euro 12,445 thousand at December 31, 2018). 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, 2019 and 2018, the trends of which are illustrated in the Management Report and here below.

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

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Foodservice	217,323	208,784
Mass Market	329,744	327,362
Private Label	303,040	294,875
Other*	64,358	60,182
Total	**914,465**	**891,203**

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

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Americas	405,700	396,794
Northern Europe	182,876	180,564
Southern Europe	227,822	234,950
Asia-Pacific and Cafés*	98,067	78,895
Total	**914,465**	**891,203**

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

22 Other Income

Other income mainly includes the income connected to variable sub-lease contracts and the part of lease payments relating to contracts that cannot be classified as financial, in accordance with IFRS 16. It is noted that, following the application of IFRS 16, sublease revenue of Euro 2,367 thousand were offset against the accounting a financial leased receivable. Please refer to note 2.5 - "*Impacts deriving from the application of the new accounting standards*" for further details.

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)	**2019**	**2018**
Purchases of raw materials	365,739	372,225
Purchases of finished goods	74,663	68,444
Purchases of packaging and other	66,373	61,738
Total	**506,775**	**502,407**

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)	**2019**	**2018**
Advertising and promotions	45,349	42,315
Transportation costs	25,478	24,994
Agent commissions and other	15,653	15,527
Maintenance, repair and support	18,379	17,629
Leases and rentals	4,189	13,959
Utilities	14,181	13,626
Travel expenses and fuel	10,888	9,657
Consultancy and collaborations	12,489	11,715
Temporary workers	3,622	3,257
Insurance	2,872	2,696
Outsourced processing	4,425	3,108
Other services	16,883	15,642
Total	**174,408**	**174,125**

In 2019, purchases of services and leases and rentals included non-recurring costs of Euro 2,850 related to the reorganization activities implemented in several areas of the Group.

Following the application of IFRS 16 in the "Lease and rentals", Euro 12,618 thousand have been eliminated and replaced with the accounting of a right of use of asset that has been amortized.

The portion remaining in the "Lease and rentals" mainly consists of *i)* short-term leases for Euro 2,814 thousand, *ii)* variable leases payment not included in the value of right-of-use assets for Euro 1,008 thousand and *iii)* low value leases for Euro 231 thousand. Please refer to note 2.5 - "*Impacts deriving from the application of the new accounting standards*" for further details

25 Personnel Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Wages and salaries	123,010	115,916
Social security contributions	20,688	18,880
Directors' fees	2,902	2,989
Contributions to pension funds	1,836	1,401
Other personnel-related costs	3,603	3,130
Total	**152,039**	**142,316**

Personnel costs for the year ended December 31, 2019 included non-recurring costs, for Euro 429 thousand, incurred mainly by the Thailand subsidiary following regulatory changes not previously quantifiable.

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

	Average number of employees during the year		Number of employees As of December 31,	
(no.)	**2019**	**2018**	**2019**	**2018**
Executives	114	110	119	108
Managers and white collar staff	2,038	1,920	2,129	1,948
Blue-collar workers	1,320	1,301	1,337	1,303
Total	**3,472**	**3,331**	**3,585**	**3,359**

26 Other Operating Costs

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31, 2019	2018
Indirect taxes and levies	3,434	3,458
Other costs	2,738	2,397
Accruals of provisions	(235)	459
Total	**5,937**	**6,314**

In 2019 other operating costs included non-recurring costs, for Euro 259 thousand, incurred for the reorganisation activities implemented by the Group in different areas.

27 Amortization, Depreciation and Impairment

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31, 2019	2018
Depreciation of property, plant and equipment	40,817	29,552
Amortization of intangible assets	5,558	5,194
Depreciation of investment property	125	116
Allowances for doubtful accounts	926	1,743
Total	**47,426**	**36,605**

In 2019, Depreciation of property, plant and equipment includes the depreciation on the right of use for Euro 9,284 thousand deriving from the adoption of IFRS 16 as explained in the note n. 2.5 - *"Impacts from new accounting standards"*.

28 Finance Income and Costs

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31, 2019	2018
Interest expense	4,836	4,453
Interest expense to related parties	1,719	1,227
Interest expense on leasing contracts	1,802	98
Net foreign exchange gains/losses	386	986
Net fair value gains/losses on derivative financial instruments	(94)	15
Other finance costs	855	817
Total finance costs	**9,504**	**7,596**
Finance income	(795)	(337)
Total net finance expense	**8,709**	**7,259**

In 2019 interest expense on leasing contracts equal to Euro 1,802 thousand includes interest on lease financial liabilities. Finance income for the year 2019 includes interest income on leasing contracts for Euro 424 thousand deriving from the lease financial receivable. These amounts derive from the application of IFRS 16 as described in the note n. 2.5 - *"Impacts from new accounting standards"*.

29 Income Tax Expense

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Current income tax	9,039	7,019
Deferred tax	58	1,336
Total	**9,097**	**8,355**

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

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Profit before tax	*24,409*	*28,252*
Theoretical taxes	**5,858**	**6,780**
Domestic tax rate impact	(602)	(715)
IRAP	191	410
ACE	212	242
Permanent differences and minor items	3,438	1,638
Income tax expense	**9,097**	**8,355**

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)	**2019**	**2018**
Average number of ordinary shares	34,300,000	34,300,000
Profit attributable to owners of the Parent	15,172	19,792
Basic and diluted earnings per share (in Euro)	**0.44**	**0.58**

Basic earnings per share and diluted earnings per share were the same for the years ended December 31, 2019 and 2018 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, 2019, not yet recognised, include contracts for the purchase of green coffee totalling Euro 157,316 thousand (Euro 190,992 thousand at December 31, 2018).

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 of December 31, 2019,	39,000	13,326	14,658	66,984
As of December 31, 2018,	39,000	8,576	12,445	60,021

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 3,441 thousand at December 31, 2019);
- 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 2,286 thousand at December 31, 2019);
- a guarantee in favour of Unicredit Bank AG dated October 30, 2018 in relation to the credit lines granted by the latter to Boncafe International Pte Ltd for an amount of USD 1,500 thousand (Euro 1,335 thousand at December 31, 2019);
- a guarantee in favour of Rabobank U.A. dated December 27, 2018 in relation to the credit lines granted by the latter to Segafredo Zanetti Australia for an amount of AUD 2,500 thousand (Euro 1,563 thousand at December 31, 2019);
- a mortgage guarantee in favor of Banco du Portugal, dated April 2019 in relation to the long-term loans subscribed by Massimo Zanetti Beverage Iberia for Euro 3,040 thousand;
- a patronage letter issued in favor of Oberbank AG, in relation to the credit lines granted to Segafredo Zanetti Deutschland Gmbh for Euro 3,000 thousand at December 31, 2019.

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 2019 and 2018, 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 2019 and 2018, as well as the statement of financial position balances resulting from related party transactions by financial statement line item As of December 31, 2019 and 2018.

(in thousands of Euro)	**Entities under Common Control**	**JV and associates**	**Key Management**	**Total related parties**	**Financial statements line item**	**Percentage of total**
Impact of transactions on income statement						
Revenue						
Year ended December 31, 2019	70	176	-	**246**	914,465	**0.0%**
Year ended December 31, 2018	74	415	-	**489**	891,203	**0.1%**
Other revenues						
Year ended December 31, 2019	-	318	-	**318**	6,101	**5.2%**
Year ended December 31, 2018	-	-	-	**-**	6,954	**0.0%**
Purchases of raw, ancillary, and consumable materials and goods						
Year ended December 31, 2019	150,987	1,461	-	**152,448**	506,775	**30.1%**
Year ended December 31, 2018	158,028	1,100	-	**159,128**	502,407	**31.7%**
Purchases of services, leases and rentals						
Year ended December 31, 2019	830	3,086	-	**3,916**	174,408	**2.2%**
Year ended December 31, 2018	632	1,281	-	**1,913**	174,125	**1.1%**
Personnel costs						
Year ended December 31, 2019	-	-	5,056	**5,056**	152,039	**3.3%**
Year ended December 31, 2018	-	-	6,755	**6,755**	142,316	**4.7%**
Finance income						
Year ended December 31, 2019	-	19	-	**19**	795	**2.4%**
Year ended December 31, 2018	-	13	-	**13**	337	**3.9%**
Finance costs						
Year ended December 31, 2019	1,743	-	-	**1,743**	9,504	**18.3%**
Year ended December 31, 2018	1,227	-	-	**1,227**	7,596	**16.2%**
Impact of transactions on statement of financial position						
Trade Receivables						
As at December 31, 2019	27	5	-	**32**	114,635	**0.0%**
As at December 31, 2018	28	77	-	**105**	120,832	**0.1%**
Other non-current assets						
As at December 31, 2019	75	485	-	**560**	15,010	**3.7%**
As at December 31, 2018	77	360	-	**437**	6,574	**6.6%**
Other current assets						
As at December 31, 2019	4	129	-	**133**	19,271	**0.7%**
As at December 31, 2018	2	86	-	**88**	15,572	**0.6%**
Non-current borrowings						
As at December 31, 2019	465	-	-	**465**	219,869	**0.2%**
As at December 31, 2018	-	-	-	**-**	175,300	**0.0%**
Current borrowings						
As at December 31, 2019	58	-	-	**58**	143,498	**0.0%**
As at December 31, 2018	-	-	-	**-**	96,637	**0.0%**
Trade Payables						
As at December 31, 2019	41,397	529	-	**41,926**	155,238	**27.0%**
As at December 31, 2018	44,678	144	-	**44,822**	144,292	**31.1%**

The following table shows details of commitments with related parties at December 31, 2019 and 2018:

(in thousands of Euro)	**Entities under Common Control**	**JV and associates**	**Key Management**	**Total related parties**	**Total**	**Percentage of total**
Commitments						
As of December 31, 2019,	71,429	-	-	**71,429**	157,316	**45.4%**
As of December 31, 2018,	89,397	-	-	**89,397**	190,992	**46.8%**

Entities under Common Control

The following table shows the income statement effects of transactions with Entities under Common Control for 2019 and 2018, 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, 2019 and 2018:

(in thousands of Euro)	**Cofiroasters SA**	**Other companies *Green Coffee***	**Doge SpA**	**Hotel Cipriani**	**Other**	**Total entities under common control**	**Financial statements line item**	**Percentage of total**
Impact of transactions on income statement								
Revenue								
Year ended December 31, 2019	-	13	18	2	37	**70**	914,465	**0.0%**
Year ended December 31, 2018	2	14	18	4	36	**74**	891,203	**0.0%**
Purchases of raw, ancillary, and consumable materials and goods								
Year ended December 31, 2019	147,315	3,672	-	-	-	**150,987**	506,775	**29.8%**
Year ended December 31, 2018	149,322	8,706	-	-	-	**158,028**	502,407	**31.5%**
Purchases of services, leases and rentals								
Year ended December 31, 2019	398	3	4	56	369	**830**	174,408	**0.5%**
Year ended December 31, 2018	181	3	81	55	312	**632**	174,125	**0.4%**
Finance income								
Year ended December 31, 2019	1,719	-	24	-	-	**1,743**	9,504	**18.3%**
Year ended December 31, 2018	1,227	-	-	-	-	**1,227**	7,596	**16.2%**
Impact of transactions on statement of financial position								
Trade Receivables								
As at December 31, 2019	-	-	22	5	-	**27**	114,635	**0.0%**
As at December 31, 2018	-	-	14	14	-	**28**	120,832	**0.0%**
Other non-current assets								
As at December 31, 2019	-	-	-	75	-	**75**	15,010	**0.5%**
As at December 31, 2018	-	-	-	77	-	**77**	6,574	**1.2%**
Other current assets								
As at December 31, 2019	-	1	-	3	-	**4**	19,271	**0.0%**
As at December 31, 2018	-	2	-	-	-	**2**	15,572	**0.0%**
Non-current borrowings								
As at December 31, 2019	-	-	465	-	-	**465**	219,869	**0.2%**
As at December 31, 2018	-	-	-	-	-	**-**	175,300	**0.0%**
Current borrowings								
As at December 31, 2019	-	-	58	-	-	**58**	143,498	**0.0%**
As at December 31, 2018	-	-	-	-	-	**-**	96,637	**0.0%**
Trade Payables								
As at December 31, 2019	40,510	856	-	-	31	**41,397**	155,238	**26.7%**
As at December 31, 2018	42,708	1,969	-	1	-	**44,678**	144,292	**31.0%**

The following table shows details of the Group’s commitments with Entities under Common Control at December 31, 2019 and 2018, 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 of December 31, 2019	71,429	**71,429**	157,316	**45.4%**
As of December 31, 2018	89,397	**89,397**	190,992	**46.8%**

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*.

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 147,315 thousand in 2019 (Euro 149,322 thousand in 2018).

(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, 2019 totalled Euro 71,429 thousand (Euro 89,397 thousand at December 31, 2018).

JV and Associates

In 2019, through its subsidiary Massimo Zanetti Beverage USA Inc., the Group performed the following transactions with the associate Club Coffee:

- Other revenues for Euro 273 thousand;
- purchases classified under "Purchases of raw, ancillary, and consumable materials and goods" for an amount of Euro 1,448 thousand (Euro 1,081 thousand in 2018).

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 5,056 thousand and Euro 6,755 thousand in 2019 and 2018, respectively.

33 Subsequent events

- In January, an epidemic outbreak of respiratory diseases caused by the Covid-19 virus (so-called coronavirus) developed in China. The virus has spread to some countries in the Asian area and in February several cases have been detected in Italy, mainly in the northern regions. The Group carefully monitors the development of the epidemic. To the date of this document, there have been no significant impacts on the business in the Asia Pacific area or in Italy.

- On January 2020, within the scope of the ordinary fund-raising activities, the Group collect the remaining Euro 25,000 thousand of the medium-to-long term loan agreement with "Banca Nazionale del Lavoro" subscribed in November 2019;
- On February 2020, within the scope of the ordinary fund-raising activities, the Group negotiated with "Banca Nazionale del Lavoro" the change of the original deadline of the medium-to-long term loan agreement of Euro 10,000 thousand issued at October 12, 2016, form April 12, 2020 to April 12, 2022.

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

Company	Registered office	Reporting date	Share capital		Percentage held as at	
			Currency	Amount (000)	31 December 2019	31 December 2018
Massimo Zanetti Beverage S.A.	Ginevra	December 31	CHF	192,900	100%	100%
Segafredo Zanetti S.p.A.	Bologna	December 31	EUR	38,800	100%	100%
La San Marco S.p.A.	Gorizia	December 31	EUR	7,000	90%	90%
Segafredo Zanetti Sarl	Ginevra	December 31	CHF	20	100%	100%
Segafredo Zanetti Argentina S.A.	Buenos Aires	December 31	ARS	4,913	100%	100%
Segafredo Zanetti Australia Pty Ltd.	Sydney	December 31	AUD	4,400	100%	100%
Segafredo Zanetti Austria Gmbh	Salisburgo	December 31	EUR	727	100%	100%
Segafredo Zanetti Belgium S.A.	Bruxelles	December 31	EUR	4,392	100%	100%
Segafredo Zanetti (Brasil) Com. distr. de Cafè S.A.	Belo Horizonte	December 31	BRL	86,934	100%	100%
Segafredo Zanetti Chile S.A.	Santiago	December 31	CLP	25,000	100%	100%
Segafredo Zanetti Coffee System S.p.A.	Treviso	December 31	EUR	6,000	100%	100%
Segafredo Zanetti CR spol.sro	Praga	December 31	CSK	9,300	100%	100%
Segafredo Zanetti Deutschland Gmbh	Monaco	December 31	EUR	1,534	100%	100%
Segafredo Zanetti Espresso Worldwide Ltd.	Ginevra	December 31	CHF	30,000	98%	98%
Segafredo Zanetti Espresso Worldwide Japan Inc.	Tokyo	December 31	YEN	50,000	98%	98%
Segafredo Zanetti France S.A.S.	Rouen	December 31	EUR	8,500	100%	100%
Segafredo Zanetti Hellas S.A.	Atene	December 31	EUR	950	100%	100%
Segafredo Zanetti Hungaria KFT	Budapest	December 31	HUF	46,630	100%	100%
Tiktak/Segafredo Zanetti Nederland BV	Groningen	December 31	EUR	18	100%	100%
Segafredo Zanetti Poland Sp.z.o.o.	Bochnia	December 31	PLN	47,615	100%	100%
Segafredo Zanetti SR Spol S.r.o.	Bratislava	December 31	EUR	200	100%	100%
Segafredo Zanetti Trgovanje s kavo. d.o.o.	Ljubljana	December 31	EUR	651	100%	100%
Brodie Melrose Drysdale & CO Ltd.	Edimburgo	December 31	GBP	244	100%	100%
Brulerie des Cafés Corsica SAS	Ajaccio	December 31	EUR	152	100%	100%
Distribuidora Cafè Montaña S.A.	San Josè	December 31	CRC	304,010	100%	100%
Massimo Zanetti Beverage USA Inc.	Suffolk	December 31	USD	73,641	100%	100%
Meira Eesti Oü	Tallin	December 31	EUR	15	100%	100%
Meira Oy Ltd.	Helsinki	December 31	EUR	1,000	100%	100%
Puccinos Worldwide Ltd	Edimburgo	December 31	GBP	0	100%	100%
Massimo Zanetti Beverage Mexico SA de CV (*)	Mazatlán	December 31	MXN	1,806	50%	50%
MZB Cafes USA Inc	Suffolk	December 31	USD	0	100%	100%
Kauai Coffee Company LLC	Hawaii	December 31	USD	0	100%	100%
Massimo Zanetti Beverage USA Food Service LLC	Wilmington	December 31	USD	0	100%	100%
Segafredo Zanetti New Zealand Ltd	Auckland	December 31	NZD	0	100%	100%
Segafredo Zanetti Croatia d.o.o.	Zagreb	December 31	HRK	4,850	100%	100%
Massimo Zanetti Beverage Vietnam Company Ltd	Ben Cat district - Binh Duong	December 31	VND	21,000,000	100%	100%
Segafredo Zanetti (Thailand) Ltd	Bangkok	December 31	THB	15,300	100%	100%
Boncafe International Pte Ltd	Singapore	December 31	SGD	18,710	100%	100%
Boncafe (Cambodia) Ltd	Phnom Penh	December 31	KHR	108,000	100%	100%
Boncafe (M) Sendirian Berhad	Kuala Lumpur	December 31	MYR	200	100%	100%
Six Degrees Café Pte Ltd	Singapore	December 31	SGD	0	100%	100%
BeanToCup (Thailand) Ltd	Bangkok	December 31	THB	4,000	100%	100%
Boncafe Middle East Co LLC	Dubai	December 31	AED	300	100%	100%
Boncafe (Thailand) Ltd	Bangkok	December 31	THB	150,000	100%	100%
Massimo Zanetti Beverage (Thailand) Ltd	Bangkok	December 31	THB	30,000	100%	100%
Boncafe (Hong Kong) Ltd	Hong Kong	December 31	USD	500	100%	100%
Segafredo Zanetti Grandi Eventi S.r.l.	Bologna	December 31	EUR	20	n.a.	100%
Massimo Zanetti Beverage Services SRL (*)	Municipiul Brasov	December 31	RON	1	51%	51%
Boncafe Vietnam Company Ltd	Thuan An	December 31	VND	12,268,000	100%	100%
Massimo Zanetti Beverage USA (Canada), Inc.	Suffolk	December 31	USD	0	100%	100%
Massimo Zanetti Beverage Canada Investment ULC	Vancouver	December 31	CAD	0	100%	100%
Club Coffee LP (*)	Toronto	April 25	CAD	4,000	15%	15%
Massimo Zanetti Beverage Ibéria S.A.	Lisbona	December 31	EUR	40,000	100%	100%
Virtus pallacanestro Bologna SSD a.r.l. (*)	Bologna	June 30	EUR	2,901	37.09%	37.09%
PT Bon cafe Indonesia	Jakarta	December 31	IDR	2,525,000	67%	67%
Shenzhen Boncafe Company Ltd	Shenzhen	December 31	USD	200	100%	100%
Bean Alliance Group PTY Ltd	Melbourne	December 31	AUD	15,000	100%	100%
Boncafe Maldives	Male	December 31	MVR	5,850	100%	n.a.
Cafè Pacaembu Ltda	Vargem Grande do Sul	December 31	BRL	11,450	100%	n.a.
Pacaembu Holding Partecipações Ltda	Vargem Grande do Sul	December 31	BRL	1,242	100%	n.a.

(*) Consolidated with equity method

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

	For the year ended December 31,			
(in thousands of Euro)	**2019**	***of which related parties***	**2018**	***of which related parties***
Revenue	914,465	246	891,203	489
Other income	6,101	318	6,954	-
Purchases of raw, ancillary, and consumable materials and goods	(506,775)	(152,448)	(502,407)	(159,128)
Purchases of services, leases and rentals	(174,408)	(3,916)	(174,125)	(1,913)
Personnel costs	(152,039)	(5,056)	(142,316)	(6,755)
Other operating costs	(5,937)		(6,314)	
Amortization, depreciation and impairment	(47,426)		(36,605)	
Operating profit	**33,981**		**36,390**	
Finance income	795	19	337	13
Finance costs	(9,504)	(1,743)	(7,596)	(1,227)
Share of losses of companies accounted for using the equity method	(863)		(879)	
Profit before tax	**24,409**		**28,252**	
Income tax expense	(9,097)		(8,355)	
Profit for the year	**15,312**		**19,897**	
Profit attributable to:				
Non-controlling interests	*140*		*105*	
Owners of the parent	*15,172*		*19,792*	
Basic and diluted earnings per share (in Euro)	**0.44**		**0.58**	

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

	As of December 31,			
(in thousands of Euro)	**2019**	***of which related parties***	**2018**	***of which related parties***
Intangible assets	227,016		182,799	
Property, plant and equipment	265,436		215,127	
Investment properties	4,934		4,771	
Investments in joint ventures and associates	11,166		10,404	
Non-current trade receivables	2,949		2,542	
Deferred tax assets	12,908		11,828	
Non-current contract assets	7,505		6,781	
Other non-current assets	15,010	560	6,574	437
Total non-current assets	**546,924**		**440,826**	
Inventories	154,525		131,649	
Trade receivables	114,635	32	120,832	105
Income tax assets	3,512		3,271	
Current contract assets	3,317		3,759	
Other current assets	19,271	133	15,572	88
Cash and cash equivalents	94,846		93,491	
Total current assets	**390,106**		**368,574**	
Total assets	**937,030**		**809,400**	
Share capital	34,300		34,300	
Other reserves	103,914		99,396	
Retained earnings	197,308		183,069	
Total equity attributable to owners of the Parent	**335,522**		**316,765**	
Non-controlling interests	1,885		1,883	
Total equity	**337,407**		**318,648**	
Non-current borrowings	219,869	465	175,300	
Employee benefits	10,491		8,822	
Other non-current provisions	3,039		3,190	
Deferred tax liabilities	29,205		26,863	
Non-current contract liabilities	418		483	
Other non-current liabilities	3,627		2,539	
Total non-current liabilities	**266,649**		**217,197**	
Current borrowings	143,498	58	96,637	
Trade payables	155,238	41,926	144,292	44,822
Income tax liabilities	2,531		1,664	
Current contract liabilities	1,817		946	
Other current liabilities	29,890		30,016	
Total current liabilities	**332,974**		**273,555**	
Total liabilities	**599,623**		**490,752**	
Total equity and liabilities	**937,030**		**809,400**	

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)	**2019**	*of which related parties*	**2018**	*of which related parties*
Profit before tax	**24,409**		**28,252**	
Adjustments for:				
Amortization, depreciation and impairment	47,426		36,605	
Provisions for employee benefits and other charges	630		1,102	
Finance costs	8,709	1,724	7,259	1,214
Other non-monetary items	276		(1,048)	
Net cash generated from operating activities before changes in net working capital	**81,450**		**72,170**	
Changes in inventories	(19,554)		(1,378)	
Changes in trade receivables	7,996	73	(832)	123
Changes in trade payables	8,644	(2,896)	2,245	7,645
Changes in other assets/liabilities	(1,363)	(168)	(2,775)	(285)
Payments of employee benefits	(410)		(776)	
Interest paid	(6,325)	(1,743)	(5,688)	(1,227)
Income tax paid	(8,513)		(8,340)	
Net cash generated from operating activities	**61,925**		**54,626**	
Acquisition of subsidiary, net of cash acquired	(43,132)		-	
Purchase of property, plant and equipment	(31,041)		(29,806)	
Purchase of intangible assets	(5,348)		(2,784)	
Proceeds from sale of property, plant and equipment	864		1,005	
Proceeds from sale of intangible assets	17		18	
Investments in joint ventures and associates	(1,500)		(1,200)	
Changes in financial receivables	3,499		(1,528)	
Interest received	147		165	
Net cash used in investing activities	**(76,494)**		**(34,130)**	
Proceeds from long-term borrowings	66,175		15,360	
Repayment of long-term borrowings	(45,628)		(24,235)	
Increase / (decrease) in short-term borrowings	11,110		(3,156)	
Repayment of lease liabilities	(10,086)	(79)	-	-
Dividends paid	(6,657)		(5,999)	
Net cash generated from financing activities	**14,914**		**(18,030)**	
Exchange gains/(losses) on cash and cash equivalents	1,010		1,431	
Net increase (decrease) in cash and cash equivalents	**1,355**		**3,897**	
Cash and cash equivalents at the beginning of the period	93,491		89,594	
Cash and cash equivalents at the end of the period	**94,846**		**93,491**	

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, 2019.

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, 2019 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), March 5, 2020

Massimo Zanetti
Chairman and Chief Executive Officer

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

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

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Independent auditor's report

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

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Massimo Zanetti Beverage Group SpA (the Group), which comprise the statement of financial position as of 31 December 2019, 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 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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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 152,502 thousand.

For the purposes of verifying the recoverability of indefinite-lived intangible assets, the Group's net assets were allocated to the following cash-generating units (CGUs): Americas, Northern Europe, Southern Europe and Asia Pacific and Cafès.

For the purposes of determining the recoverable amount of each CGU to which the goodwill is allocated, management determined the value in use applying the Discounted Cash Flow method. Based on this method the recoverable amount (enterprise value) of an entity or CGU is the sum of the present value of the estimated future cash flows for the explicit years (2020-2022) and of the terminal value determined by applying to the last year of the plan a long-term growth rate ("g-rate") that is specific to each CGU and represents the expected long-term inflation rate in the countries in which the CGU operates.
The recoverable amount of each CGU to which the goodwill is allocated, has been compared to the carrying amount determined as the sum of the assets and liabilities attributable to the CGU including goodwill.

As part of our audit of the consolidated financial statements as of 31 December 2019, 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 future cash flows for the Group and for each CGU. The discount rates applied to the future cash flows (weighted average cost of capital – "WACC") were also estimated.

As part of our audit of the consolidated financial statements as of 31 December 2019, we performed the following procedures.

We obtained the impairment tests prepared by management with the assistance of an independent expert and approved by the board of directors of Massimo Zanetti Beverage Group SpA.

We analysed the reasonableness of the management's assumptions about the identification of the cash-generating units and about the allocation of the goodwill and the indefinite-lived intangibles.

We evaluated the reasonableness of the estimated future cash flows used in the impairment test, specifically verifying their consistency with the projections in the business plan submitted to the board of directors on 27 February 2020 and the reasonableness of the assumptions used, in light of the past results of each CGU and the Group.

With the support of valuation specialists from the PwC network, we verified that the methodology used was consistent with valuation practice and in particular with the requirements of International Accounting Standard IAS 36 adopted by the European Union. In addition, we assessed the key valuation parameters for reasonableness. With specific reference to the WACC calculation method, we verified that WACC values had been determined according to common best practices and based on market rates. Similarly, we assessed the consistency of the calculations of long-term growth rates with the requirements of the International Financial Reporting Standards adopted by the European Union.

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
	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 2019 and used for comparisons with the values in use.
Purchases of green coffee from related parties *Note 32 to the consolidated financial statements* The Group purchases green coffee, the main raw material for the production of the finished good, from companies under common control of the majority shareholder Massimo Zanetti Industries SA. In particular, the Group's purchases of green coffee from Cofiroasters SA and other companies belonging to the Green Coffee Group in the year 2019 accounted for raw material costs included in "Purchases of raw, ancillary, and consumable materials and goods" totalling Euro 150,987 thousand, while outstanding payables to those companies, included in "Trade payables", amounted to Euro 41,366 thousand as of 31 December 2019. Cofiroasters SA purchases green coffee from producers, sells it to both Group entities and other customers, and organizes the transport of green coffee from production locations to destination ports or directly to roasting plants. The Group's purchases of green coffee from Cofiroasters SA are based on individual orders placed by individual companies and are governed by the "European contract for Coffee" adopted by the European Coffee Federation. In view of the materiality of these transactions, which accounted for around 30% 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 2019 consolidated financial statements.	As part of our audit of the consolidated financial statements as of 31 December 2019, we performed the following procedures. We understood and evaluated the controls performed by the Company in order to conclude that transactions with related parties are conducted under normal market terms and conditions. In particular, we obtained and discussed the reports of the Internal Audit function on this topic, which include a comparison of the prices charged by Cofiroasters SA to the Group with those charged by other possible third party suppliers. We examined the minutes of the governance bodies, which report the procedures performed and the conclusions reached and included in the disclosures provided in the notes to the financial statements. We also requested a specific written representation to confirm those conclusions. We verified that the margin (revenues less cost of goods sold) of Cofiroasters SA, as reported in the latest available financial reporting, was maintained within the range that the Group believes ensures the application of a selling price under normal market terms and conditions. Finally, we verified the completeness and adequacy of the disclosure provided in the financial statements in accordance with the accounting standards.

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

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

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

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

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

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

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the

consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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

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

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

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

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

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

Report on Compliance with other Laws and Regulations

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

The directors of Massimo Zanetti Beverage Group SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Group as of 31

December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Group as of 31 December 2019 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 2019 and are prepared in compliance with the law.

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

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

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

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

Treviso, 27 March 2020

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, 2019

Income Statement

(in Euro)	Note	For the year ended December 31, 2019	2018
Revenue	**16**	12,326,454	10,621,901
Other income		95,319	45,281
Purchases of raw, ancillary, and consumable materials and goods		(13,796)	(35,193)
Purchases of services, leases and rentals	**17**	(4,936,254)	(2,674,721)
Personnel costs	**18**	(4,070,686)	(5,972,926)
Other operating costs	**19**	(141,745)	(168,802)
Amortization, depreciation and impairment	**20**	(688,548)	(737,852)
Operating profit		**2,570,744**	**1,077,688**
Finance income	**21**	9,583,499	8,862,883
Finance costs	**21**	(2,364,543)	(2,026,078)
Profit (loss) before tax		**9,789,700**	**7,914,495**
Income tax expense	**22**	(429,527)	(126,682)
Profit for the year		**9,360,173**	**7,787,812**

Statement of Comprehensive Income

	Note	For the year ended December 31,	
(in thousands of Euro)		**2019**	**2018**
Profit for the period		**9,360,173**	**7,787,812**
Gains/(Losses) from cash flow hedges		(488,795)	-
Items that may be subsequently reclassified to profit or loss		**(488,795)**	**-**
Remeasurements of employee benefit obligations	**14**	(30,021)	(4,270)
Items that will not be reclassified to profit or loss		**(30,021)**	**(4,270)**
Total comprehensive income/(loss) for the year		**8,841,357**	**7,783,542**

Statement of Financial Position

(in Euro)	Note	As of December 31, 2019	2018
Intangible assets	**5**	5,079,485	1,944,031
Property, plant and equipment	**6**	13,239,297	13,271,996
Investments in subsidiaries	**8**	284,069,702	262,369,702
Deferred tax assets	**9**	4,632,441	3,888,750
Non-current financial receivables	**7**	41,845,351	33,924,782
Total non-current assets		**348,866,276**	**315,399,261**
Income tax assets		1,288,860	1,605,552
Current financial receivables	**7**	9,992,865	8,160,349
Other current assets	**10**	1,594,290	1,994,841
Cash and cash equivalents	**11**	23,442,117	33,213,099
Total current assets		**36,318,132**	**44,973,841**
Total assets		**385,184,408**	**360,373,102**
Share capital		34,300,000	34,300,000
Other reserves		96,650,491	103,266,895
Retained earnings		31,456,000	22,515,239
Total equity	**12**	**162,406,491**	**160,082,134**
Non-current borrowings	**13**	145,381,498	144,681,900
Employee benefits	**14**	404,907	353,828
Deferred tax liabilities	**9**	535,712	29,859
Other non-current liabilities	**15**	1,397,264	1,041,219
Total non-current liabilities		**147,719,381**	**146,106,806**
Current borrowings	**13**	68,098,598	47,463,030
Income tax liabilities		-	97,840
Trade payables		1,526,481	1,699,694
Other current liabilities	**15**	5,433,457	4,923,598
Total current liabilities		**75,058,536**	**54,184,162**
Total liabilities		**222,777,917**	**200,290,968**
Total equity and liabilities		**385,184,408**	**360,373,102**

Statement of Cash Flows

(in Euro)	Note	For the year ended December 31, 2019	2018
Profit (loss) before tax		**9,789,700**	**7,914,494**
Adjustments for:			
Amortization, depreciation and impairment	**20**	688,548	737,852
Net finance income	**21**	(7,218,956)	(6,836,806)
Other non-monetary items		64,960	54,425
Net cash generated/(used in) from operating activities before changes in net working capital		**3,324,252**	**1,869,965**
Changes in trade payables		(173,213)	901,811
Changes in other assets/liabilities	**10-15**	458,742	(912,596)
Payments of employee benefits	**14**	(56,970)	(15,205)
Interest paid		(2,514,844)	(2,394,637)
Income tax paid		(127,471)	(10,203)
Net cash used in operating activities		**910,496**	**(560,865)**
Investments in subsidiaries	**8**	(21,700,000)	(3,000,000)
Dividends received	**21**	8,254,023	7,592,885
Purchase of intangible assets	**5**	(3,312,823)	(1,444,840)
Purchase of property, plant and equipment	**6**	(421,985)	(301,226)
Proceeds from sale of property, plant and equipment	**6**	13,308	-
Changes in financial receivables	**7**	(9,528,625)	7,317,729
Interest received		1,266,640	1,273,039
Net cash generated from/(used in) investing activities		**(25,429,462)**	**11,437,587**
Proceeds from long-term borrowings	**13**	60,000,000	15,000,000
Repayment of long-term borrowings	**13**	(38,487,000)	(16,316,493)
Decrease in short-term loans	**13**	(245,285)	(2,844,066)
Changes in lease receivable and liabilities	**13**	(2,731)	-
Dividends paid	**12**	(6,517,000)	(5,831,000)
Net cash (used)/generated from financing activities		**14,747,984**	**(9,991,559)**
Total net increase in cash and cash equivalents		**(9,770,982)**	**885,163**
Cash and cash equivalents at the beginning of the year	**11**	33,213,099	32,327,936
Cash and cash equivalents at the end of the year		**23,442,117**	**33,213,099**

Statement of Changes in Equity

(in Euro)	Share capital	Other reserves	Retained earnings	Total equity
As of December 31, 2017	**34,300,000**	**108,761,850**	**15,067,742**	**158,129,592**
Profit for the year	-	-	7,787,812	**7,787,812**
Remeasurements of employee benefit obligations	-	-	(4,270)	**(4,270)**
Total comprehensive income for the year	**-**	**-**	**7,783,542**	**7,783,542**
Allocation of previous year result	-	336,045	(336,045)	**-**
Dividend distribution	-	(5,831,000)	-	**(5,831,000)**
As of December 31, 2018	**34,300,000**	**103,266,895**	**22,515,239**	**160,082,134**
Profit for the year	-	-	9,360,173	**9,360,173**
Gain/(Loss) from cash flow hedges	-	(488,795)	-	**(488,795)**
Remeasurements of employee benefit obligations	-	-	(30,021)	**(30,021)**
Total comprehensive income for the year	**-**	**(488,795)**	**9,330,152**	**8,841,357**
Allocation of previous year result	-	389,391	(389,391)	**-**
Dividend distribution	-	(6,517,000)	-	**(6,517,000)**
As of December 31, 2019	**34,300,000**	**96,650,491**	**31,456,000**	**162,406,491**

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 S.p.A., 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, 2019 ("**Separate Financial Statements**"), approved by the Company's Board of Directors on March 5, 2020, have been prepared on a going concern basis. Management has confirmed the absence of any financial, operational or other indicator that might call into question the ability of the Company to meet its obligations in the foreseeable future and, in particular, over the next twelve months. The approach adopted by the Company for the management of financial risks is discussed in note 3 - "*Management of financial risks*". below.

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

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

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

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

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

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

2.2. Accounting Policies

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

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

Investments in subsidiaries

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

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

Receivables and other financial assets

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

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

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

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

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

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

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.

Derivative instruments

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

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

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

Employee benefits

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

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

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

Provisions for risks and charges

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

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

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

Trade payables and other liabilities

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

Revenue recognition

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

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

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

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

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

Cost recognition

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

Taxation

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

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

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

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

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

2.3. Impacts from new accounting standards

IFRS 16

IFRS 16 "Leases" eliminates the difference between operating and finance leases for the purposes of the preparation of lessees' financial statements. For all leases with a term of more than 12 months, except for those related to assets with a low unit value, an entity shall recognise an asset and a liability, representing the right to use the underlying asset and the obligation to make contract payments, respectively. Conversely, for the purposes of lessors' financial statements preparation, the difference between operating and finance leases is maintained. IFRS 16 strengthens disclosure requirement for both lessors and lessees.
Starting from January 1, 2019 the company applied IFRS 16 using the simplified approach, which does not require the restatement and recalculation of the accounting balances prior to the application of the standard. Specifically, the right-of-use asset is equal to the carrying amount of the related liability at the date of first-time adoption, adjusted to reflect the prepayments and accrued expenses related to back-and front-loaded lease payments recognised on January 1, 2019.

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

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as "Short-term leases";
- The accounting for operating leases for which the underlying asset is low value as "Low value leases";
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;

- The use of hindsight in determine the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessments made applying IAS 17 – Leasing and IFRIC 4 - Determining whether an Arrangement contains a Lease.

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

The discount rate used to measure the carrying amount of lease liabilities considers the country and currency risks, the lease term and the company's credit risk.

It is reported that, net of a financial lease previously accounted based on IAS 17 relating to a land and building, which value at December 31, 2018 was equal to Euro 775 thousand, the Company did not register new leases at the transition date of January 1, 2019.

During the year ended December 31, 2019, vehicle leasing contracts were recognized as right-to-use (amounted to Euro 67 thousand at December 31, 2019) and lease liabilities (amounted to Euro 67 thousand at December 31, 2019).

The application of IFRS 16 do not generate any significant effect on the profit and loss of the period closed at December 31, 2019.

2.4. Recently Issued Accounting Standards

Accounting standards issued but not yet effective as not endorsed by the European Union

At the reporting date, the competent bodies of the EU had not yet completed the endorsement process necessary to apply the following standards and amendments:

- *IFRS 17 "Insurance Contracts"*. On May 18, 2017, the IASB published IFRS 17 "Insurance contracts" which governs the recognition, measurement, presentation and disclosure of the insurance contracts issued and the reinsurance contracts held.
  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.

- *Amendments to IFRS 3 "Business Combinations"*. On October 22, 2018, the IASB issued an amendment to IFRS 3 which clarifies the definition of "business" and provides additional guidance on the preparation of financial statements. The amendments assist companies in determining the target of an acquisition, by distinguishing between a business or a group of assets.
  The amendment to IFRS 3 is effective for annual periods beginning on or after January 1, 2020.

- *Amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current"*. On October 22, 2018, the IASB issued an amendment to IFRS 3 which clarifies the definition of "business" and provides additional guidance on the preparation of financial statements.

The amendments assist companies in determining the target of an acquisition, by distinguishing between a business or a group of assets.
The amendment to IFRS 3 is effective for annual periods beginning on or after January 1, 2020.

The provisions introduced by the coming into force of the above standards, are not expected to have any material financial impact on the Company. In any case, the Company did not opt for the early adoption of accounting standards and amendments which will become effective in future years.

Accounting standards, amendments and interpretations not yet adopted, but that are available for early application

At the reporting date, the competent bodies of the EU had approved the adoption of the following accounting standards and amendments, not yet adopted by the Company:

- *Amendments to IAS 1 e IAS 8 "Definition of Material"*. On October 31, 2018, the IASB issued some amendments to IAS 1 and IAS 8 to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS.
The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after January 1, 2020.

- *Amendments to IFRS 9, IAS39 e IFRS7 "Interest Rate Benchmark Reform"*. On October 31, 2018, the IASB issued some amendments to IAS 1 and IAS 8 to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS.
The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after January 1, 2020.

- *Amendments to "References to the Conceptual Framework in IFRS Standards".* On October 31, 2018, the IASB issued some amendments to IAS 1 and IAS 8 to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. Furthermore, with respect to the definition, these amendments ensure consistency between all IFRS.
The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after January 1, 2020.

The Company is analyzing the above standards and is considering whether their adoption will have a significant impact on the financial statements.

2.5. Significant Non-Recurring Events and Transactions

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

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

3 Management of Financial Risks

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

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

Market risk

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

Interest rate risk

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

The notional value of the interest rate swaps outstanding at December 31, 2019 totalled Euro 88,524 thousand (Euro 84,500 thousand at December 31, 2018). The interest rate swaps outstanding at December 31, 2019 had a negative fair value of Euro 1,702 thousand (negative fair value of Euro 1,308 thousand at December 31, 2018).

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, all with variable interest rates as of December 31, 2019 and 2018, it is reconduct to a substantially fixed rate thanks to the interest rate swap that reduced to 48% and 52%, respectively at December 31, 2019 and 2018 the variability of the interest rate.

An increase/decrease of 1% (100 basis points) in interest rates compared to those applicable as of December 31, 2019 and 2018, with all other variables unchanged and including hedging derivatives in place, would have resulted in a decrease/increase respectively in profit before taxation for the year of Euro 1,057 thousand in 2019 and Euro 882 thousand in 2018.

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 2019 includes net foreign exchange gains of Euro 245 thousand (net foreign exchange gains of Euro 402 thousand in 2018).

An increase/(decrease) of 1% (100 basis points) in Euro/USD exchange rates compared to those applicable as of December 31, 2019 and 2018, with all other variables remaining unchanged, would have resulted in a (decrease)/increase in profit before taxation for the year of Euro (80)/81 thousand in 2019 and (decrease)/increase of Euro (85)/87 thousand in 2018.

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, 2019, the Company had credit lines totalling Euro 18,200 thousand (Euro 16,200 thousand as of December 31, 2018), drawn by Euro 8,000 thousand (Euro 6,000 thousand as of December 31,2018).

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, 2019 and 2018:

As of December 31, 2019 *(in thousands of Euro)*	**Carrying amount**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	213,480	69,287	139,237	9,913
Other Current and Non-Current Liabilities	6,831	5,433	1,397	-
Trade payables	1,526	1,526	-	-
Total	**221,837**	**76,247**	**140,634**	**9,913**

As of December 31, 2018 *(in thousands of Euro)*	**Carrying amount**	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**
Current and non-current borrowings	192,145	49,212	143,548	4,176
Other Current and Non-Current Liabilities	6,063	5,021	1,041	-
Trade payables	1,700	1,700	-	-
Total	**199,907**	**55,933**	**144,589**	**4,176**

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, 2019 and 2018, as they primarily relate to balances generated by normal business that will be settled in the short term.

The following tables set forth an analysis of the Company's financial assets and liabilities by category at December 31, 2019 and 2018:

As of December 31, 2019 *(in thousands of Euro)*	**Financial instruments at amortized cost**	**Financial instruments at fair value**	**Hedging derivatives at fair value**	**Total financial assets / liabilities**	**Total non - Financial assets / Liabilities**	**Total**
Assets						
Current and Non-Current Financial Receivables	51,838	-	-	51,838	-	**51,838**
Other current assets	1,379	-	-	1,379	215	**1,594**
Cash and cash equivalents	23,442	-	-	23,442	-	**23,442**
Total assets	**76,659**	**-**	**-**	**76,659**	**215**	**76,874**
Liabilities						
Current and non-current borrowings	213,480	-	-	213,480	-	**213,480**
Trade payables	1,526	-	-	1,526	-	**1,526**
Other Current and Non-Current Liabilities	2,294	1,213	489	3,996	2,834	**6,830**
Total liabilities	**217,301**	**1,213**	**489**	**219,002**	**2,834**	**221,836**

As of December 31, 2018 (in thousands of Euro)	Financial instruments at amortized cost	Financial instruments at fair value	Hedging derivatives at fair value	Total financial assets / liabilities	Total non - Financial assets / liabilities	Total
Assets						
Current and Non-Current Financial Receivables	42,085	-	-	42,085	-	**42,085**
Other current assets	1,675	-	-	1,675	320	**1,995**
Cash and cash equivalents	33,213	-	-	33,213	-	**33,213**
Total assets	**76,973**	**-**	**-**	**76,973**	**320**	**77,293**
Liabilities						
Current and non-current borrowings	192,145	-	-	192,145	-	**192,145**
Trade payables	1,700	-	-	1,700	-	**1,700**
Other Current and Non-Current Liabilities	1,399	1,308	-	2,707	3,258	**5,965**
Total liabilities	**195,243**	**1,308**	**-**	**196,552**	**3,258**	**199,810**

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, 2019	-	1,702	-	**1,702**
Liabilities at December 31, 2018	-	1,308	-	**1,308**

The fair value of derivative instruments at December 31, 2019 and 2018 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, 2019 and 2018. 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 carries forwards 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 of December 31, 2017	**612**	**70**	**682**
Of which:			
- historical cost	1,376	70	**1,446**
- accumulated depreciation	(764)	-	**(764)**
Capital expenditure	19	1,426	***1,426***
Disposals	-	-	**-**
Amortization	(182)	-	***(182)***
As of December 31, 2018	**449**	**1,426**	**1,944**
Of which:			
- historical cost	*1,395*	*1,496*	***2,890***
- accumulated depreciation	*(946)*	-	***(964)***
Capital expenditure	3	3,310	**3,313**
Disposals	-	-	**-**
Amortization	(177)	-	**(177)**
As of December 31, 2019	**274**	**4,805**	**5,080**
Of which:			
- historical cost	*1,398*	*4,805*	***6,203***
- accumulated depreciation	*(1,123)*	-	***(1,123)***

The increase of asset under development refers to the implementation of the new Group ERP.

6 Property, Plant and Equipment

The item can be broken down as follows:

(in thousands of Euro)	**Land and buildings**	**Plant and machinery**	**Commercial and industrial equipment and other**	**Total**
As of December 31, 2017	**10.946**	**365**	**2.215**	**13,526**
Of which:				
- historical cost	*13,142*	*1,129*	*3,223*	***17,494***
- accumulated depreciation	*(2,196)*	*(764)*	*(1,008)*	***(3,968)***
Capital expenditure	21	268	12	**301**
Amortization	(290)	(102)	(163)	**(555)**
As of December 31, 2018	**10,677**	**531**	**2,064**	**13,272**
Of which:				
- historical cost	*13,163*	*1,397*	*3,235*	***17,795***
- accumulated depreciation	*(2,486)*	*(866)*	*(1,171)*	***(4,523)***
Capital expenditure	82	54	355	**491**
Disposals	-	-	(13)	**(13)**
Amortization	(292)	(120)	(100)	**(511)**
Reclassification	-	(466)	466	**0**
As of December 31, 2019	**10,467**	**-**	**2,772**	**13,239**
Of which:				
- historical cost	*13,320*	-	*4,701*	***18,021***
- accumulated depreciation	*(2,853)*	-	*(1,929)*	***(4,782)***

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

7 Current and Non-Current Financial Receivables

The following table sets forth a breakdown of current and non-current financial receivables from subsidiaries at December 31, 2019 and 2018:

Current and Non-Current Financial Receivables *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
As of December 31, 2019	9,993	33,423	8,422	**51,838**
As of December 31, 2018	8,160	29,509	4,416	**42,085**

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

Interest rate	**Year**	**Counterparty**	**Currency**	**Initial principal amount**	**As of December 31,**	
					2019	**2018**
				(in thousands)	*(in thousands of Euro)*	
Libor 3M + 3%	2014	Boncafe International Pte Ltd	USD	21,366	7,205	7,478
Libor 3M + 3%	2014	MZB (Thailand) Ltd	THB	83,275	942	1,137
7.26%	2015	Meira Oy Ltd.	EUR	16,416	8,467	10,267
Euribor 3M + 1.5%	2016	Massimo Zanetti Beverage S.A.	EUR	29,620	16,693	20,470
1.20%	2017	Segafredo Zanetti Australia Pty Ltd.	EUR	1,700	1,325	1,625
1.20%	2017	Boncafe International Pte Ltd	EUR	1,300	900	1,100
2.00%	2019	Massimo Zanetti Beverage S.A.	EUR	6,300	6,300	-
Euribor 6M + 2,5%	2019	Massimo Zanetti Beverage S.A.	EUR	10,000	10,000	-

Other investment	EUR	6	8
Total		**51,838**	**42,085**
of which non-current		*41,846*	*33,925*
of which current		*9,993*	*8,160*

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 of December 31, 2017**	**Increase/ (Decrease)**	**As of December 31, 2018**	**Increase/ (Decrease)**	**As of December 31, 2019**
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	156,505	3,000	159,505	21,700	181,205
Segafredo Zanetti Coffee System SpA	3,341	-	3,341	-	3,341
Massimo Zanetti Beverage (Thailand) Ltd	339	-	339	-	339
Boncafe International Pte Ltd	53,865	-	53,865	-	53,865
Total	**259,370**	**3,000**	**262,370**	**21,700**	**284,070**

The Euro 21,700 thousand increase in 2019 recorded by Massimo Zanetti Beverage SA refers to a capital injection for future share capital increase, to finance the acquisition of Bean Alliance Group, Cafè Pacaembu e Pacaembu Holding done in 2019 by the subsidiary.

The Euro 3,000 thousand increase in 2018 recorded by Massimo Zanetti Beverage SA refers to a capital injection for future share capital increase, related to the acquisition of Bean Alliance Group done in the first month of 2019.
The following table sets forth the information relating to the percentage held in the subsidiaries' share capital and their equity As of December 31, 2019.

As of December 31, 2019 *(in thousands of Euro)*	**Direct**	**Indirect**	**Registered office**	**Share capital**	**Equity**	**Carrying value**	**Equity attributable to owners of the parent**	**Exceed of carrying value**
Segafredo Zanetti SpA	100%	-	Bologna	*EUR 38.800*	*41,435*	42,258	*41,435*	*823*
La San Marco SpA	90.4%	-	Gorizia	*EUR 7.000*	*21,842*	1,420	*19,741*	-
Segafredo Zanetti Espresso Worldwide Ltd	8.6%	89.1%	Geneva	*CHF 30.000*	*16,826*	1,642	*1,447*	*195*
Massimo Zanetti Beverage SA(1)	100%	-	Geneva	*CHF 192.900*	*163,958*	181,205	*221,978*	-
Segafredo Zanetti Coffee System SpA	16.7%	83.3%	Casale sul Sile (TV)	*EUR 6.000*	*9,532*	3,341	*1,589*	*1,752*
Massimo Zanetti Beverage (Thailand) Ltd	49.0%	51.0%	Bangkok	*THB 30.000*	*2,657*	339	*1,302*	-
Boncafe International Pte Ltd	100.0%	-	Singapore	*SGD 18.710*	*17,278*	53,865	*17,278*	*36,587*
Total						**284,070**	***304,769***	***39,357***

(1)The amount includes also other equity instruments

No impairment indicators were noted at December 31, 2019 also considering the results of the impairment test performed on the Group CGUs at December 31, 2019.

9 Deferred Tax Assets and Liabilities

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

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
As of January 1	**3,859**	**3,892**
Of which:		
- deferred tax assets	*3,889*	*3,923*
- deferred tax liabilities	*(30)*	*(31)*
Charged to the income statement	237	(63)
Credited/(Charged) to the other comprehensive income	-	-
Other changes	-	30
As of December 31	**4,096**	**3,859**
Of which:		
- deferred tax assets	*4,632*	*3,889*
- deferred tax liabilities	*(536)*	*(30)*

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 of December 31,	
(in thousands of Euro)	**2019**	**2018**
Other receivables from related parties	1,379	1,674
Tax receivables	44	214
Other receivables and current assets	171	106
Other current assets	**1,594**	**1,994**

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 of December 31,	
(in thousands of Euro)	**2019**	**2018**
Cash at bank	23,438	33,211
Cash and cash equivalents	4	2
Total	**23,442**	**33,213**

12 Equity

Share capital

As of December 31, 2019, 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 of December 31, 2017	***4,196***	***62,918***	***41,648***	**108,762**	**15,068**
Profit for the year	-	-	-	-	**7,787**
Remeasurements of employee benefit obligations	-	-	-	-	**(4)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**7,783**
Reclassifications	*336*	-	-	**336**	**(336)**
Dividend distribution	-	-	*(5,831)*	**(5,831)**	**-**
As of December 31, 2018	***4,532***	***62,918***	***35,817***	**103,267**	**22,515**
Profit for the year	-	-	-	-	**9,360**
Gain/(Loss) on cash flow hedge	-	-	*(489)*	**(489)**	**-**
Remeasurements of employee benefit obligations	-	-	-	-	**(30)**
Total comprehensive income for the year	**-**	**-**	***(489)***	**(489)**	**9,330**
Reclassifications	*389*	-	-	**389**	**(389)**
Dividend distribution	-	-	*(6,517)*	**(6,517)**	**-**
As of December 31, 2019	***4,921***	***62,918***	***28,811***	**96,650**	**31,456**

The share premium reserve, amounting to Euro 62,918 thousand at December 31, 2019, 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 of December 31, 2019**	**Potential uses***	**Amount available**
Share capital	**34,300**		
Legal reserve	4,921	B	-
Share premium	62,918	A, B, C	60,979
Other equity-related reserves	28,811	A, B, C	28,811
Total other reserves	**96,650**		
Retained earnings	**31,456**	*A, B, C*	31,456
Total equity	**162,406**		
Total			**162,406**
Amount distributable			121,246

*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, 2019 and 2018:

As of December 31, 2019 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	58,514	135,508	9,820	203,842
Short-term borrowings	8,000	-	-	8,000
Finance lease liabilities	701	53	-	754
Loans from related parties	884	-	-	884
Total	**68,099**	**135,561**	**9,820**	**213,480**
As of December 31, 2018 *(in thousands of Euro)*	**Less than 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	38,487	139,852	4,147	182,486
Short-term borrowings	6,000	-	-	6,000
Finance lease liabilities	92	683	-	775
Loans from related parties	2,884	-	-	2,884
Total	**47,463**	**140,535**	**4,147**	**192,145**

Long-term borrowings

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

Interest rate	Year	Initial principal amount	As of December 31, 2019	As of December 31, 2018
		(in thousands)	*(in thousands of Euro)*	
denominated in Euro				
Euribor 3M + 1.25%	2015	12,000	5,667	7,000
Euribor 3M + 1.10%	2016	15,000	4,963	8,333
Euribor 6M + 1.35%	2016	50,000	45,000	50,000
Euribor 6M + 0.90%	2016	9,000	3,998	7,328
Euribor 6M + 1.05%	2016	50,000	34,898	44,861
Euribor 6M + 0.9%	2016	10,000	5,017	9,998
Euribor 3M + 0.75%	2016	10,000	5,022	7,514
Euribor 6M +1%	2016	10,000	4,994	7,489
0.80%	2017	10,000	9,994	9,988
Euribor 3M +0.85%	2017	15,000	10,751	14,988
Euribor 3M +0.75%	2018	15,000	13,764	14,987
Euribor 3M +0.95%	2019	15,000	14,968	-
Euribor 6M +1.25%	2019	20,000	19,946	-
Euribor 3M +1.55%	2019	20,000	19,980	-
Euribor 6M +1.50%	2019	5,000	4,880	-
Total			**203,842**	**182,486**
of which non-current			*145,328*	*143,999*
of which current			*58,514*	*38,487*

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 debt 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, 2019 and 2018. Consequently, there are no events of default to be reported.

Within the scope of the ordinary fund-raising activities, the Company entered into these medium-to-long term loan agreements during the period ended December 31, 2019:

- with Monte dei Paschi di Siena, in February 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2026;
- with Credito Valtellinese in February 2019 for an overall amount of Euro 15,000 thousand reaching maturity in 2026;

- with UBI Banca in September 2019 for an overall amount of Euro 20,000 thousand reaching maturity in 2023.
- with Banca Nazionale del Lavoro, in November, for an overall amount of Euro 30,000 thousand reaching maturity in 2024. As at December 31, 2019 the loan was utilized for Euro 5,000 thousand.

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

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Principal amount of long-term borrowings		
- at variable rate	194,196	172,684
- at fixed rate	10,000	10,000
Notional value of derivatives on interest rates	88,524	84,500
Long-term borrowings converted at fixed rate	48%	52%
Remaining portion of long-term borrowings at variable rate	52%	48%

In order to reduce the Company's exposure to interest rate fluctuations, during the 2019, the Company enter into an interest rate swap for an amount of Euro 20,000 thousand for which applied the requirements for hedge accounting set forth by IFRS 9 "Financial instruments: recognition and valuation".

Except of what here disclosed, the interest rate swap contracts signed and used by the Company to reduce the exposure to interest rate fluctuations, do not comply with the requirements for hedge accounting set forth by IFRS 9 "Financial instruments: recognition and valuation".

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 8,000 thousand at December 31, 2019. Settlement of the aforementioned borrowings is expected in 2020.

Loans from related parties

Please refer to note 23 – "*Related Party Transactions*" for further details on loans from related parties.

The following table sets forth a breakdown of the Company's Net Debt as of December 31, 2019 and 2018, determined in accordance with the CONSOB communication dated July 28, 2006 and in compliance with the Recommendation ESMA/2013/319:

		As of December 31,	
	(in thousands of Euro)	2019	2018
A	Cash and cash equivalents	(4)	(2)
B	Cash at bank	(23,438)	(33,211)
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**(23,442)**	**(33,213)**
E	**Current financial receivables**	**(9,993)**	**(8,160)**
F	Current loans	8,000	6,000
G	Current portion of non-current loans	58,514	38,487
H	Other current financial payables	1,585	2,976
I	**Current debt (F+G+H)**	**68,099**	**47,463**
J	**Net current debt (I+E+D)**	**34,664**	**6,090**
K	Non-current medium/long-term loans	145,328	143,999
L	Issued bonds	-	-
M	Other non-current financial payables	53	683
N	**Non-current debt (K+L+M)**	**145,381**	**144,682**
O	**Net Debt (J+N)**	**180,045**	**150,772**
	of which due to third parties	189,154	156,048
	of which due to related parties	(9,109)	(5,276)

14 Employee Benefits

Employee benefits include the provision for termination indemnities (TFR) for employees of Company entities in Italy. Employee benefits are detailed as follows:

	For the year ended December 31,	
(in thousands of Euro)	2019	2018
As at January 1	**354**	**301**
Service costs	65	57
Interest expenses	4	7
Benefits paid	(57)	(15)
Remeasurements of employee benefits	40	4
As of December 31	**405**	**354**

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

	As of December 31,	
	2019	2018
Economic assumptions		
Inflation rate	2.00%	2.00%
Discount rate	1.73%	3.58%
Demographic assumptions		
Probability of resignation	8.21%	3.63%
Probability of advance payments to employees	1.89%	1.80%

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

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

(in thousands of Euro)	**Changes in assumptions (%)**	**Impact on employee benefits based on**			
		Increase in assumptions	**Decrease in assumptions**	**Increase in assumptions**	**Decrease in assumptions**
Economic assumptions		*As of December 31, 2019*		*As of December 31, 2018*	
Inflation rate	0.50%	5	(6)	4	(4)
Discount rate	0.50%	(15)	16	(13)	13
Demographic assumptions					
Probability of resignation	0.50%	(3)	3	0	0
Probability of advance payments to employees	0.50%	(3)	2	0	0

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

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

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

(in thousands of Euro)	**Balance**	**Less than 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Expected benefits paid to employees As of December 31, 2019	**405**	36	99	142	334	**611**
Expected benefits paid to employees As of December 31, 2018	**354**	25	26	199	526	**776**

15 Other Current and Non-Current Liabilities

The item can be broken down as follows:

	As of December 31,	
(in thousands of Euro)	**2019**	**2018**
Non-current interest rate derivatives	1,397	1,041
Other non-current liabilities	**1,397**	**1,041**
Payables to personnel	1,548	385
Current interest rate derivatives	305	267
Payables to social security institutions	148	139
Tax payables	144	240
Other payables and current liabilities	1,425	2,820
Other payables due to related parties	1,863	1,073
Other current liabilities	**5,433**	**4,924**

Please refer to note 3 - "*Management of Financial Risks*" for further details on derivative instruments and also to note 23 – "*Related Party Transactions*" for further details regarding "Other payables due to related parties".

16 Revenue

Revenue amounted to Euro 12,326 thousand in 2019 (Euro 10,622 thousand in 2018), entirely attributable to related party transactions and, in particular, to management fees to subsidiaries.

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Revenue from related parties	12,324	10,622
Other revenues	3	-
Total	**12,326**	**10,622**

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)	**2019**	**2018**
Advertising and promotions	1,758	10
Consultancy and collaborations	1,379	1,679
Maintenance, repair and support	418	236
Travel expenses and fuel	858	292
Utilities	88	86
Insurance	37	29
Leases and rentals	52	42
Other services	346	301
Total	**4,936**	**2,675**

The increase is mainly due to sponsoring and marketing costs.

“Leases and rentals” totally refer to short term leasing contracts for which it is applicable the exception recognized by IFRS16. Refer to note n. 2.3 – “*Impact from new accounting standards”* further detail.

18 Personnel Costs

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Wages and salaries	2,138	4,130
Social security contributions	792	743
Contributions to pension funds	20	18
Other personnel-related costs	85	44
Accruals to post-employment benefits	66	54
Directors' fees	970	984
Total	**4,071**	**5,973**

The following table shows the Company's total and average number of employees:

(no.)	Average number of employees during the year		Number of employees As of December 31,	
	2019	**2018**	**2019**	**2018**
Executives	5	5	5	5
Managers and white-collar staff	17	16	17	17
Blue-collar workers	17	16	19	15
Total	**39**	**37**	**41**	**37**

19 Other Operating Costs

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31,	
	2019	**2018**
Indirect taxes and levies	69	83
Donations	40	35
Other costs	33	51
Total	**142**	**169**

20 Amortization, Depreciation and Impairment

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31,	
	2019	**2018**
Depreciation of property, plant and equipment	511	555
Amortization of intangible assets	177	182
Total	**689**	**738**

21 Finance income and costs

The item can be broken down as follows:

(in thousands of Euro)	For the year ended December 31,	
	2019	**2018**
Interest income	39	1
Interest income from related parties	1,290	1,269
Dividends from subsidiaries	8,254	7,593
Total finance income	**9,583**	**8,863**
Interest expense	(2,602)	(2,304)
Interest expense for leasing	(18)	(18)
Net foreign exchange gains/(losses)	245	402
Net changes on derivative financial instruments	94	(15)
Other finance costs	(83)	(91)
Total finance costs	**(2,365)**	**(2,026)**
Total net finance expense	**7,219**	**6,837**

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 2019, the subsidiaries distributed dividends to the Company for Euro 8,254 thousand (Euro 7,593 thousand in 2018), of which: Euro 1,254 thousand from La San Marco S.p.A. (Euro 1,493 thousand in 2018) and Euro 7,000 thousand from Massimo Zanetti Beverage SA (Euro 6,100 thousand in 2018).

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

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

22 Income Tax Expense

The item can be broken down as follows:

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Current income tax	(630)	(138)
Taxes related to prior periods	(37)	66
Benefit from group tax consolidation	-	8
Deferred tax	237	(63)
Total	**(430)**	**(127)**

The following table provides a reconciliation between theoretical and effective income tax expenses for 2019 and 2018.

	For the year ended December 31,	
(in thousands of Euro)	**2019**	**2018**
Profit (loss) before tax	9,790	7,914
Theoretical taxes	**(2,350)**	**(1,899)**
IRAP	(43)	-
Taxes related to prior periods	(37)	66
ACE and ROL	212	242
Non-taxable dividends	1,966	1,804
Permanent differences and minor items	(178)	(340)
Income tax benefit	**(430)**	**- 127**

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 2019 and 2018, 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 2019 and 2018, as well as the statement of financial position balances resulting from related party transactions by financial statement line item as of December 31, 2019 and 2018:

(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, 2019	18	12,306	-	**12,324**	12,326	**100.0%**
For the year ended December 31, 2018	18	10,604	-	**10,622**	10,622	**100.0%**
Other income						
For the year ended December 31, 2019	36	41	-	**77**	95	**81.3%**
For the year ended December 31, 2018	36	-	-	**36**	45	**80.0%**
Purchases of raw, ancillary, and consumable materials and goods						
For the year ended December 31, 2019	-	14	-	**14**	14	**100.0%**
For the year ended December 31, 2018	-	8	-	**8**	35	**21.8%**
Purchases of services, leases and rentals						
For the year ended December 31, 2019	-	1,750	-	**1,750**	4,936	**35.5%**
For the year ended December 31, 2018	-	131	-	**131**	2,675	**4.9%**
Personnel costs						
For the year ended December 31, 2019	-	595	1,839	**2,433**	4,071	**59.8%**
For the year ended December 31, 2018	-	70	4,173	**4,243**	5,973	**71.0%**
Other operating costs						
For the year ended December 31, 2019	40	83	-	**123**	142	**86.6%**
For the year ended December 31, 2018	35	-	-	**35**	169	**20.7%**
Finance income						
For the year ended December 31, 2019	-	9,545	-	**9,545**	9,583	**99.6%**
For the year ended December 31, 2018	-	8,862	-	**8,862**	8,863	**100.0%**
Impact of transactions on statement of financial position						
Non-current financial receivables						
As of December 31, 2019	-	41,839	-	**41,839**	41,845	**100.0%**
As of December 31, 2018	-	33,917	-	**33,917**	33,925	**100.0%**
Other current assets						
As of December 31, 2019	25	1,354	-	**1,379**	1,594	**86.5%**
As of December 31, 2018	15	1,659	-	**1,674**	1,995	**83.9%**
Current financial receivables						
As of December 31, 2019	-	9,993	-	**9,993**	9,993	**100.0%**
As of December 31, 2018	-	8,160	-	**8,160**	8,160	**100.0%**
Current borrowings						
As of December 31, 2019	-	884	-	**884**	68,099	**1.3%**
As of December 31, 2018	-	2,884	-	**2,884**	47,463	**6.1%**
Trade payables						
As of December 31, 2019	-	81	-	**81**	1,526	**5.3%**
As of December 31, 2018	-	49	-	**49**	1,700	**2.9%**
Other current liabilities						
As of December 31, 2019	-	1,863	-	**1,863**	5,433	**34.3%**
As of December 31, 2018	1	1,072	-	**1,073**	4,924	**21.8%**

The following table shows details of other balances resulting from related party transactions at December 31, 2019 and 2018:

(in thousands of Euro)	**Subsidiaries**	**Total related parties**	**Total**	**Percentage of total**
Guarantees				
As of December 31, 2019	13,326	**13,326**	13,326	**100.0%**
As of December 31, 2018	7,876	**7,876**	7,876	**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 8,254 thousand for 2019 (Euro 7,953 thousand in 2018); see note 21 - "*Finance Income and Costs*" for further details and *ii)* interest income amounting to Euro 1,291 thousand for 2019 (Euro 1,269 thousand in 2018) generated from the financial receivables outstanding at December 31, 2019 and 2018; for further details, see section *c)*.

c) Current and Non-Current Financial Receivables

Current and non-current financial receivables amounting to Euro 51,832 thousand at December 31, 2019 (Euro 42,085 thousand at December 31, 2018) 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.

d) 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".

e) Current borrowings

Current borrowings amount to Euro 884 thousand at December 31, 2019 (Euro 2,884 thousand at December 31, 2018) and refer to a non-interest-bearing loan to Segafredo Zanetti S.p.A.

f) 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, 2019 (Euro 1,000 thousand at December 31, 2018), 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 Nutricafès 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 3,441 thousand at December 31, 2019).

- 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 2,286 thousand at December 31, 2019);

- a guarantee in favour of Unicredit Bank AG. dated October 30, 2018 in relation to the credit lines granted by the latter to Boncafè International Pte Ltd for an amount of USD 1,500 thousand (Euro 1,335 thousand at December 31, 2019).

- a guarantee in favour of Rabobank U.A., dated December 27, 2018 in relation to the credit lines granted by the latter to Segafredo Zanetti Australia for an amount of AUD 2,500 thousand (Euro 1,563 thousand at December 31, 2019).

- A patronage letter issued in favor of Overbank AG, connected to a credit line given to Segafredo Zanetti Deutschland Gmbh for Euro 3,000 thousand at December 31, 2019.

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 1,839 thousand and Euro 4,173 thousand for the year ended December 31, 2019 and 2018, respectively.

24 Subsequent events

- On January 2020, within the scope of the ordinary fund-raising activities, the Group collect the remaining Euro 25,000 thousand of the medium-to-long term loan agreement with "Banca Nazionale del Lavoro" subscribed in November 2019;
- On February 2020, within the scope of the ordinary fund-raising activities, the Group negotiated with "Banca Nazionale del Lavoro" the change of the original deadline of the medium-to-long term loan agreement of Euro 10,000 thousand issued at October 12, 2016, form April 12, 2020 to April 12, 2022.

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 their network:

Service	Service provider	Recipient	Fees 2019 *(in thousands of Euro)*
Audit services	PricewaterhouseCoopers S.p.A.	Parent	271
	PricewaterhouseCoopers S.p.A.	Subsidiaries	163
	PricewaterhouseCoopers Network	Subsidiaries	679
Other assurance services	PricewaterhouseCoopers Network	Parent	-
	PricewaterhouseCoopers Network	Subsidiaries	7
Tax and legal services	PricewaterhouseCoopers Network	Parent	-
	PricewaterhouseCoopers Network	Subsidiaries	47
Other services	PricewaterhouseCoopers Network	Parent	353
	PricewaterhouseCoopers SpA	Subsidiaries	-
	PricewaterhouseCoopers Network	Subsidiaries	27

The fees paid to the Board of Statutory Auditors amount to Euro 88 thousand in both 2019 and 2018.

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

	For the year ended December 31,			
(in Euro)	**2019**	**of which related parties**	**2018**	**of which related parties**
Revenue	12,326,454	12,323,841	10,621,901	10,621,901
Other income	95,319	77,234	45,281	36,000
Purchases of raw, ancillary, and consumable materials and goods	(13,796)	(14,000)	(35,193)	(7,630)
Purchases of services, leases and rentals	(4,936,254)	(1,750,000)	(2,674,721)	(131,243)
Personnel costs	(4,070,686)	(2,433,398)	(5,972,926)	(4,243,192)
Other operating costs	(141,745)	123,007	(168,802)	35,000
Amortization, depreciation and impairment	(688,548)		(737,852)	
Operating profit	**2,570,744**		**1,077,688**	
Finance income	9,583,499	9,544,676	8,862,883	8,861,596
Finance costs	(2,364,543)	-	(2,026,078)	-
Loss before tax	**9,789,700**		**7,914,494**	
Income tax expense	(429,527)		(126,682)	
Profit for the year	**9,360,173**		**7,787,812**	

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

	As of December 31,			
(in Euro)	**2019**	**of which related parties**	**2018**	**of which related parties**
Intangible assets	5,079,485		1,944,031	
Property, plant and equipment	13,239,297		13,271,996	
Investments in subsidiaries	284,069,702		262,369,702	
Deferred tax assets	4,632,441		3,888,750	
Non-current financial receivables	41,845,351	41,838,778	33,924,782	33,916,385
Total non-current assets	**348,866,276**		**315,399,261**	
Income tax assets	1,288,860		1,605,552	
Current financial receivables	9,992,865	9,993,073	8,160,349	8,160,349
Other current assets	1,594,290	1,379,152	1,994,841	1,674,388
Cash and cash equivalents	23,442,117		33,213,099	
Total current assets	**36,318,132**		**44,973,841**	
Total assets	**385,184,408**		**360,373,102**	
Share capital	34,300,000		34,300,000	
Other reserves	96,650,491		103,266,895	
Retained earnings	31,456,000		22,515,239	
Total equity	**162,406,491**		**160,082,134**	
Non-current borrowings	145,381,498		144,681,900	
Employee benefits	404,907		353,828	
Deferred tax liabilities	535,712		29,859	
Other non-current liabilities	1,397,264		1,041,219	
Total non-current liabilities	**147,719,381**		**146,106,806**	
Current borrowings	68,098,598	883,878	47,463,030	2,883,878
Income tax liabilities	-		97,840	
Trade payables	1,526,481	80,782	1,699,694	49,186
Other current liabilities	5,433,457	1,863,000	4,923,598	1,072,670
Total current liabilities	**75,058,536**		**54,184,162**	
Total liabilities	**222,777,917**		**200,290,968**	
Total equity and liabilities	**385,184,408**		**360,373,102**	

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

	For the year ended December 31,			
(in Euro)	**2019**	**of which related parties**	**2018**	**of which related parties**
Loss before tax	**9,789,700**		**7,914,494**	
Adjustments for:				
Amortization, depreciation and impairment	688,548		737,852	
Net finance income	(7,218,956)	(9,544,676)	(6,836,806)	(8,861,596)
Other non-monetary items	64,960		54,425	
Net cash generated/(used in) from operating activities before changes in net working capital	**3,324,252**		**1,869,965**	
Changes in trade payables	(173,213)		901,811	
Changes in other assets/liabilities	458,742		(912,596)	
Payments of employee benefits	(56,970)		(15,205)	
Interest paid	(2,514,844)		(2,394,637)	
Income tax paid	(127,471)		(10,203)	
Net cash used in operating activities	**910,496**		**(560,865)**	
Investments in subsidiaries	(21,700,000)		(3,000,000)	
Dividends received	8,254,023	8,254,023	7,592,885	7,592,885
Purchase of intangible assets	(3,312,823)		(1,444,840)	
Purchase of property, plant and equipment	(421,985)		(301,226)	
Proceeds from sale of property, plant and equipment	13,308		-	
Interest received	(9,528,625)	(9,528,625)	7,317,729	7,317,729
Changes in financial receivables	1,266,640	1,227,817	1,273,039	1,271,752
Net cash generated from/(used in) investing activities	**(25,429,462)**		**11,437,587**	
Proceeds from long-term borrowings	60,000,000		15,000,000	
Repayment of long-term borrowings	(38,487,000)	(8,600,000)	(16,316,493)	(6,600,000)
Decrease in short-term loans	(245,285)		(2,844,066)	
Changes in lease receivable and liabilities	(2,731)		-	
Dividends paid	(6,517,000)		(5,831,000)	
Net cash (used in)/generated from financing activities	**14,747,984**		**(9,991,559)**	
Total net increase in cash and cash equivalents	**(9,770,982)**		**885,163**	
Cash and cash equivalents at the beginning of the year	33,213,099		32,327,936	
Cash and cash equivalents at the end of the year	**23,442,117**		**33,213,099**	

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, 2019.

2. The assessment of the adequacy of the administrative and accounting procedures used in preparing the financial statements, for the year ended December 31, 2019 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), March 05, 2020

Massimo Zanetti
Chairman and Chief Executive Officer

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

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

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Independent auditor's report

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

To the shareholders of
Massimo Zanetti Beverage Group SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Massimo Zanetti Beverage Group SpA (the Company), which comprise the statement of financial position as of 31 December 2019, 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 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of investments in subsidiaries *Note 8 to the financial statements* The financial statements of Massimo Zanetti Beverage Group SpA include investments in subsidiaries amounting to Euro 284,070 thousand, accounting for 74% of total assets, recognized at the purchase price or incorporation cost and tested for impairment in case impairment indicators are identified. As part of our audit as of 31 December 2019 we focused on this area of the financial statements, given the materiality of the amounts compared to the total assets and the elements of estimate intrinsic to the valuation of investments in subsidiaries.	As part of our audit of the financial statements as of 31 December 2019, we performed the following procedures. We obtained an understanding of the procedure adopted by the Company to identify impairment indicators, examining management's procedures to assess the existence of impairment indicators provided for in paragraph 12 of International Accounting Standard IAS 36 adopted by the European Union. We compared the results reported by the subsidiaries in 2019 with those budgeted for the same year. Finally, we obtained and evaluated the internal forecasting showing the results estimated in the 2020 budget, included in the business plan submitted to the board of directors on 27 February 2020.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Compliance with other Laws and Regulations

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

The directors of Massimo Zanetti Beverage Group SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2019, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Massimo Zanetti Beverage Group SpA as of 31 December 2019 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 2019 and are prepared in compliance with the law.

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

Treviso, 27 March 2020

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

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Report of the Board of Statutory Auditors to the Shareholders' Meeting

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING
OF MASSIMO ZANETTI BEVERAGE GROUP S.p.A.
DRAWN UP PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98 AND
ARTICLE 2429.2 OF THE ITALIAN CIVIL CODE

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Dear Shareholders,

This report has been drawn up pursuant to article 153 of Legislative decree no. 58 of February 24, 1988 (the "TUF" or the "Consolidated Law on Finance") and article 2429 of the Italian Civil Code, in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) communication no. 1025564 of April 6, 2001, as subsequently amended and supplemented, and considering the rules of conduct set by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

1. In performing its supervisory and monitoring tasks, the Board of Statutory Auditors confirms:
    - it checked compliance with the law and the Bylaws and the principles of sound management, as required by article 2403 of the Italian Civil Code, article 149 of the T.U.F. and the above Consob communication no. 1025564 of April 6, 2001;
    - it participated in all meetings of the Board of Directors, the Internal Audit and Risk Committee, the Nominating and Remuneration Committee and the Committee for Related Party Transactions. Furthermore, it was periodically informed by the Directors about the overall business performance, its outlook and the main transactions with an effect on the Company's financial position and results of operations approved and implemented by the Company and its investees. The Board of Statutory Auditors can reasonably confirm that the transactions approved and implemented comply with the law and the Bylaws, are not openly imprudent, risky, in potential conflict of interest, in contrast with the Shareholders' Meetings' resolutions or such to jeopardize the integrity of the Company's assets; it did not identify any atypical and/or unusual transactions with group companies, third parties or related parties, nor was informed thereof by the Board of Directors, the independent auditors or the director in charge of the internal audit and risk management system. The Board of Directors described the effects of the ordinary transactions with a significant impact on the Company's financial position and results of operations carried out with related parties on an arm's length basis in the Report on operations and in the Notes to the consolidated financial statements. Furthermore, also based on the results of the specific controls carried out by the Internal Audit department, the Board of Statutory Auditors believes that related party transactions are adequately monitored. To this end, in accordance with the Regulations on transactions with related parties introduced pursuant to Consob Resolution no. 17221 dated March 12, 2010, as subsequently amended and integrated, the Company adopted a procedure governing related-party transactions. The aforementioned procedure was approved by the Board of Directors of the Company on July 15, 2015 and amended on February 27, 2015, August 28, 2015 and June 18, 2018 with the approval of the independent directors. Pursuant to article 4 of the above Regulation, the Board of Statutory Auditors checked that the procedures adopted complied with the Regulation's provisions and that they were complied with;
    - it gained knowledge of and monitored the adequacy of the Company's organizational structure to the

extent of its duties, and compliance with the principles of sound management, by collecting information from the Company's departments' heads and during the meetings held with the representatives of the independent auditors, PricewaterhouseCoopers S.p.A., which was engaged to perform the statutory audit of the financial statements, also for the purposes of exchanging relevant data and information, without identifying any critical issues. Similarly, no critical issues were identified during the meeting with the Boards of Statutory Auditors of the Italian subsidiaries (Segafredo Zanetti S.p.A., Segafredo Zanetti Coffee System S.p.A. and La San Marco S.p.A.);

- to have supervised and verified, to the extent of its responsibilities:
  - ➢ the financial reporting process, the adequacy of the internal control and accounting/administrative systems, and the latter's reliability in fairly presenting the Company's operations;
  - ➢ the adequacy of the systems and processes that govern the production, reporting, measurement and representation of non-financial results and information, through:

  a) regularly exchanging information with the Chief Executive Officer and the Manager in charge of the preparation of corporate accounting documents pursuant to article 154-bis of the T.U.F.;
  b) assessing the reports prepared by the Internal Audit department, including the corrective actions proposed and their implementation by the Company;
  c) obtaining information from the departments' heads;
  d) holding meetings and exchanging information with the Supervisory Board and the supervisory bodies of the Italian subsidiaries, through which the Board of Statutory Auditors obtained information on the administrative and control systems and business activities;
  e) performing in-depth analyses of the activities carried out and the findings of the work conducted by the independent auditors;
  f) participating in the meetings and the work of Audit and Risk Committee and, where necessary, by performing in-depth analyses of the relevant issues.

The Board of Statutory Auditors did not identify any irregularities which may indicate weaknesses in the internal audit and risk management system.

- to have had meetings with representatives of the independent auditors PricewaterhouseCoopers S.p.A., appointed to perform the statutory audit of the accounts, for the purpose of exchanging relevant data and information, to be informed of the main risks to which the Company is exposed and the safeguards put in place to deal with them, as well as on the checks performed on the correct keeping of accounts and reporting of management activity in account entries. No relevant observations emerged from the interviews.
- it checked the implementation of the Corporate Governance Code of Listed Companies promoted by Borsa Italiana S.p.A. and adopted by the Company in accordance with that set out in the Report on Corporate Governance and Shareholding Structure approved by the Board of Directors on March 5, 2020. The Board of Statutory Auditors also checked the correct application of the criteria and assessment procedures used by the Board of Directors to assess the independence of its members. Furthermore, it checked compliance with the independence and professional expertise requirements of its members, pursuant to applicable legislation; it also carried out the annual self-assessment required by the Rules of Conduct of the Boards of Statutory Auditors of Listed Companies, issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (association of chartered accountants), reviewing the ability of its members to meet the eligibility requirements and the appropriate composition of the control body with respect to the requisites of professionalism,

expertise, integrity and independence required by law, as well as the availability of time and correct operation with regard to the planned activity. The positive outcome of this self-assessment was communicated to the Company's Board of Directors.

- it read and obtained information about the organizational and procedural activities carried out pursuant to Legislative decree no. 231/2001 on the administrative liability of entities. The Supervisory Board reported to the Board of Statutory Auditors on the activities carried out during the year without noting any significant events;
- it satisfied itself as to the fact that the information flows from the extra-EU subsidiaries were adequate for the purposes of checking the annual and interim financial statements pursuant to article 36 of the Market Regulations adopted as per Consob Resolution no. 16191 dated October 29, 2007;
- it monitored the implementation of the organizational measures related to the development of the Company's business;
- to have supervised compliance with the provisions contained in Legislative decree no. 254/2016 on the disclosure of information of a non-financial nature and on diversity;
- it received the draft financial statements of MZBG S.p.A. at December 31, 2019, the Group's consolidated financial statements at the same date, the Report on operations thereon and the Consolidated non-Financial Statement from the Board of Directors in accordance with the law.

As an Internal Audit and Audit Committee, pursuant to art. 19 of Legislative decree no. 39 of January 27, 2010 as amended by Legislative decree no. 135 of July 17, 2016, in implementation of Directive 2014/56/EU, during the year the Board of Statutory Auditors:

- monitored the financial reporting process, which proved to be suitable in terms of its integrity;
- checked the effectiveness of the internal quality control and business risk management systems as well as the internal audit with regard to financial reporting, without violating its independence;
- monitored the statutory audit of the financial statements and the consolidated financial statements;
- verified and monitored the independence of the independent auditors pursuant to the provisions of the law, in particular with regard to the adequacy of the provision of services other than auditing, in accordance with the provisions of article 5 of Regulation (EU) 537/2014.

During 2019, the Board of Statutory Auditors met eight times and also participated in the seven meetings of the Board of Directors and all those of the Board Committees.

Based on the information obtained, the Board of Statutory Auditors believes that the business was conducted in accordance with the principles of sound management and that the organizational structure, the internal control system and the administrative/accounting structure are overall adequate to the Company's needs.

2. With respect to the relationship with the independent auditors PricewaterhouseCoopers SpA, the following should be noted:

- on March 27, 2020, pursuant to article 11 of Regulation (EU) 537/2014, the independent auditors issued their Report to the Internal Audit and Audit Committee which, specifically, is embodied by the Board of Statutory Auditors, stating that no significant weaknesses were identified in the internal controls over financial reporting. The independent auditors' Report also includes the "Annual statement on independence" pursuant to article 6.2, letter a of the above EU Regulation. The aforementioned Report will be sent by the Board of Statutory Auditors to the Board of Directors as required by current law.

- on March 27, 2020, the audit firm issued its reports pursuant to article 14 of Legislative decree no. 39/2010 and article 10 of EU Regulation 537/2014, reports on revisions of financial statements, stating that:
  - the separate and consolidated financial statements at December 31, 2018 give a true and fair view of the Company's and the Group's financial position, results of operations and cash flows as at and for the year ended December 31, 2018;
  - the Report on operations and the information provided in article 123 bis.4 of Legislative decree no. 58/98, included in the Report on Corporate Governance and Ownership Structure, are consistent with the separate and consolidated financial statements;
  - with regard to any significant errors in the Report on operations, based on the knowledge and understanding of the company and its context acquired during the audit, it has nothing to report.
- on March 27, 2020, the audit firm also issued its reports pursuant to article 3 of Legislative decree no. 254/2016 and of art. 5 of Consob Regulation no. 20267/2018, the report on the Consolidated Non-Financial Statement relating to the year ended December 31, 2018 which shows that nothing emerged from the work carried out that lead one to believe that in all significant aspects it was not drafted in compliance with the requirements of art. 3 and 4 of Legislative decree no. 254/2016 and by the relevant adopted reporting standards;
- in addition to the tasks required by the current regulations applicable to listed companies, as described in the notes to the separate financial statements, the independent auditors, PricewaterhouseCoopers S.p.A., and their network companies, were assigned other engagements for non-audit services for Euro 434 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, pursuant to article 2389, comma 3 of the Italian Civil Code, an opinion was issued on the remuneration of a Director with special duties. Furthermore, in accordance with the Corporate Governance Code, an opinion was issued on the organizational changes to the Company's Internal Audit Function.

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, 2019 and the Report on operations, the Board of Statutory Auditors, to the extent of its duties, notes that the financial statement format applied complies with the law, that the accounting policies, as described in the notes, are adequate to the activities and the transactions carried out by the Company and the Group, that the procedure adopted (impairment test) to identify any impairment losses on the assets recognized in the financial statements was approved by the Board of Directors independently and before the approval of the annual report and that the financial statements are consistent with the facts and the information known to the Board of Statutory Auditors after participating in its meetings and as part of the task performed.

6. Based on the outcome of the specific tasks performed by the independent auditors on the audit of the accounting records and the reliability of the financial statements, and considering the supervisory duties carried out, the Board of Statutory Auditors is unanimously in favor of the approval of the separate financial statements as at December 31, 2019 and agrees with the Board of Directors' proposed allocation of the profit for the year.

Milan, March 27, 2020

On behalf of the Board of Statutory Auditors

The Chairperson

Fabio Facchini

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