

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(In € thousands)</i>	Notes	As of December 31,		
		2018	2017	2016
Non-current assets				
Property, plant and equipment	8.1	30,669	31,865	224,741
Investment properties	8.2	-	-	17,416
Right of use assets	8.3	18,577	-	-
Intangible assets	8.4	25,713	26,800	27,578
Non-current financial asset at fair value through profit or loss	8.5	32	32	46
Financial assets at amortised cost	8.6	858	975	293
Deferred tax assets	8.7	4,844	6,386	-
Total non-current assets		80,693	66,058	270,074
Current assets				
Inventories	8.8	25,251	25,735	25,382
Trade receivables	8.9	53,869	54,430	47,343
Income tax receivables	8.10	775	1,179	1,656
Other current assets and receivables	8.11	14,440	22,328	7,363
Current financial asset at fair value through profit or loss	8.12	4	280	280
Cash and cash equivalents	8.13	61,786	72,060	50,777
Total current assets		156,125	176,012	132,801
TOTAL ASSETS		236,818	242,070	402,875
Equity				
Share capital		27,000	27,000	27,000
Reserves		30,588	35,954	96,424
Net profit		5,952	4,492	6,786
Total equity	8.14	63,540	67,446	130,210
Non-current liabilities				
Employee benefit obligations	8.15	11,038	11,314	11,204
Provisions for risks and charges	8.16	1,008	8,653	17,488
Deferred tax liabilities	8.7	3,850	3,874	24,709
Non-current borrowings	8.17	1,778	13,478	26,912
Non-current lease liabilities	8.4	14,110	-	-
Other non-current liabilities	8.18	3,121	4,619	40,770
Total non-current liabilities		34,905	41,938	121,083
Current liabilities				
Trade payables	8.19	92,221	91,160	82,738
Current borrowings	8.17	27,163	25,708	50,662
Current lease liabilities	8.4	5,087	-	-
Income tax payables	8.10	410	1,437	748
Other current liabilities	8.20	13,492	14,381	17,434
Total current liabilities		138,373	132,686	151,582
TOTAL EQUITY AND LIABILITIES		236,818	242,070	402,875

CONSOLIDATED INCOME STATEMENT

<i>(In € thousands)</i>	Notes	Year ended December 31,		
		2018	2017	2016
Revenue from contracts with customers	9.1	305,830	303,084	292,244
Cost of sales of goods	9.2	(256,060)	(255,115)	(241,299)
Gross profit		49,770	47,969	50,945
Sales and distribution costs	9.2	(27,864)	(26,488)	(27,013)
Administrative expenses	9.2	(12,663)	(12,873)	(13,241)
Net impairment losses on financial assets	9.3	(937)	(928)	(772)
Other income	9.4	4,577	4,916	5,459
Other costs	9.5	(3,153)	(3,399)	(4,790)
Operating profit		9,730	9,197	10,588
Finance income	9.6	1,327	886	1,579
Finance costs	9.6	(2,077)	(2,403)	(4,051)
Profit before income tax		8,980	7,680	8,116
Income tax expense	9.7	(3,028)	(3,188)	(1,330)
Net profit		5,952	4,492	6,786
Basic earnings per share	9.8	11.02	8.32	12.57
Diluted earnings per share	9.8	11.02	8.32	12.57

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(In € thousands)</i>	Notes	Year ended December 31,		
		2018	2017	2016
Net profit (A)		5,952	4,492	6,786
a) Other comprehensive income that will not be reclassified to profit or loss				
Actuarial gains / (losses) on post-employment benefit obligations	8.15	209	(239)	(74)
Tax effect	8.7	(67)	(11)	13
Total other comprehensive income that will not be reclassified to profit or loss		142	(250)	(61)
Total other comprehensive income for the period, net of tax (B)		142	(250)	(61)
Total comprehensive income for the period (A)+(B)		6,094	4,242	6,725

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(In € thousands)</i>	Share capital	Reserves	Net profit	Total equity
As of January 1, 2016	27,000	96,485	-	123,485
Net profit	-	-	6,786	6,786
Actuarial gains on post-employment, net of tax	-	(61)	-	(61)
Total comprehensive income for the period	-	(61)	6,786	6,725
As of December 31, 2016	27,000	96,424	6,786	130,210
Allocation income for the prior year	-	6,786	(6,786)	-
Real estate Reorganization	-	(63,467)	-	(63,467)
Inclusion of the business unit Corticella Molini e Pastifici S.p.A.	-	(539)	-	(539)
Distribution of dividends	-	(3,000)	-	(3,000)
Transactions with owners in their capacity as owners	-	(67,006)	-	(67,006)
Net profit	-	-	4,492	4,492
Actuarial gains on post-employment, net of tax	-	(250)	-	(250)
Total comprehensive income for the period	-	(250)	4,492	4,242
As of December 31, 2017	27,000	35,954	4,492	67,446
Allocation income for the prior year	-	4,492	(4,492)	-
Inclusion of Newlat Deutschland	-	(10,000)	-	(10,000)
Transactions with owners in their capacity as owners	-	(10,000)	-	(10,000)
Net profit	-	-	5,952	5,952
Actuarial gains on post-employment, net of tax	-	142	-	142
Total comprehensive income for the period	-	142	5,952	6,094
As of December 31, 2018	27,000	30,588	5,952	63,540

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(In € thousands)</i>	Notes	For the year ended December 31,		
		2018	2017	2016
Profit before income tax		8,980	7,680	8,116
- <i>Adjustments:</i>				
Depreciation and amortization	8.1/8.2/8.3/8.4	13,561	9,392	12,152
Capital gain / (loss) from disposal of assets	9.4/9.5	(71)	(22)	6
Net financial expenses	9.6	750	1,517	2,472
Other non-monetary movements	8.8/8.9/8.15/8.16	(6,627)	(7,804)	(8,085)
Cash flow from operating activities before changes in net working capital		16,593	10,763	14,661
Changes in inventory	8.8	484	(353)	(1,133)
Changes in trade receivables	8.9	(375)	(8,015)	6,699
Changes in trade payables	8.19	1,469	8,422	25,659
Changes in other assets and liabilities	8.6/8.11/8.18/8.20	7,616	16,619	2,377
Uses of employee benefit obligations and provisions for risks and charges	8.15/8.16	(294)	(337)	(427)
Income tax paid	8.10	(2,200)	(421)	(2,813)
Net cash flow provided by / (used in) operating activities		23,293	26,678	45,023
Investments in property, plant and equipment	8.1	(5,585)	(6,707)	(5,619)
Investments in intangible assets	8.2	(208)	(354)	(421)
Disposal of property, plant and equipment	8.1	73	66	12
Disposal of financial assets	8.6/8.12	276	14	-
Payment of deferred consideration for acquisition	8.18/8.20	(1,998)	(1,999)	(2,720)
Inclusion of Newlat Deutschland	8.14	(10,000)	-	-
Inclusion of the business unit Corticella Molini e Pastifici S.p.A.	8.14	-	(539)	-
Net cash flow provided by / (used in) investing activities		(17,442)	(9,519)	(8,748)
Proceeds from long-term borrowings	8.17	-	34,000	15,000
Repayment of long-term borrowings	8.17	(11,624)	(3,396)	(3,410)
Changes in current financial liabilities	8.17	1,379	(22,068)	(76,124)
Repayment of lease liabilities	8.4	(5,275)	-	-
Net financial expenses paid	9.6	(605)	(1,412)	(2,351)
Dividends paid	8.14	-	(3,000)	-
Net cash flow provided by / (used in) financing activities		(16,125)	4,124	(66,885)
Total cash flow provided / (used) in the year		(10,274)	21,283	(30,610)
Cash and cash equivalents at the beginning of the period		72,060	50,777	81,387
Total cash flow provided / (used) in the year		(10,274)	21,283	(30,610)
Cash and cash equivalents at the end of the period		61,786	72,060	50,777

1 NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

1.1 Objective

These combined consolidated financial statements have been prepared solely for inclusion by reference: i) in the Registration Document to listing of the ordinary shares of Newlat Food S.p.A. on the Mercato Telematico Azionario (the “MTA”), the Italian screen-based trading system organized and managed by Borsa Italiana S.p.A and ii) in any further offering documents relating to sale of the shares of Newlat Food S.p.A. to institutional investors.

1.2 General information

Newlat Food S.p.A. (hereafter “**Newlat**”, the “**Issuer**” or the “**Company**” and together with its subsidiaries the “**Newlat Group**” or the “**Group**”) is a limited company incorporated in Italy, organized under Italian law. The Company has its registered offices in Reggio Emilia, Via J. F. Kennedy, 16.

The Newlat Group operates in the food industry and boasts a broad range of products grouped in the following business units: Pasta, Milk Products, Bakery Products, Dairy Products, Special Products and Other Activities.

The Issuer is subject to management and coordination by its controlling entity, Newlat Group S.A., the company that holds its entire share capital.

On June 27, 2019, the Issuer signed a purchase agreement with its controlling entity Newlat Group S.A. for the acquisition of the entire share capital of Newlat GmbH Deutschland (hereafter “**Newlat Deutschland**”), a wholly owned subsidiary of Newlat Group S.A.(hereafter the “**Newlat Deutschland Acquisition Contract**”).

The Newlat Deutschland Acquisition Contract provides that admission to listing of the Issuer’s shares on the MTA is a suspensive condition for the transfer of ownership of the Newlat Deutschland shares to Newlat.

The provisional consideration for the acquisition of Newlat Deutschland, based on an estimate of the final consideration, amounts to €55 million. The final consideration will be determined as follows: the average EBITDA of Newlat Deutschland for the financial years 2016, 2017, 2018 and the first six months of 2019 x 8 +/- NFD as of the date the transfer of ownership of the Newlat Deutschland shares to Newlat becomes effective. The respective means of calculating net financial debt and EBITDA for the purposes of determining the final consideration are defined in the contract.

The provisional consideration was settled by the Issuer through payment to Newlat Group S.A. of: (i) €10 million on December 31, 2018; and (ii) five further amounts totalling €45 million during the period between 13 May and 18 June 2019. Any price adjustment will be settled within 30 days of the date the transfer of ownership of the Newlat Deutschland shares to Newlat becomes effective.

On December 21, 2010, Newlat and Corticella, a wholly owned subsidiary of Newlat Group S.A., the sole shareholder of Newlat, entered into an agreement through which Newlat leased the business unit comprising certain buildings, plant and machinery, employee contracts, customer contracts and legal relations relating to the production plants in Corte de’ Frati (CR) and Bologna as well as the right to use certain trademarks.

On May 23, 2017, Newlat and Corticella then entered into an agreement, effective as of July 1, 2017, to: (i) terminate the lease contract entered into on December 21, 2010; and (ii) transfer to Newlat the business described below for a consideration of €539 thousand (hereafter, the “**Acquisition of the Corticella Business Unit**”).

The business unit acquired from Corticella as a result of the agreement entered into on May 23, 2017 (hereafter, the “**Corticella Business Unit**”) comprised: (i) the movable assets, machinery, equipment, legal and employee relations relating to the business leased to Newlat under the agreement entered into on December 21, 2010; (ii) movable assets, machinery, equipment, legal and employee relations relating to the transformation of durum wheat into flour at the part of the processing plant in Bologna, known as the “Molino” (not included in the business unit previously leased under the agreement entered into on December 21, 2010); and (iii) Corticella owned trademarks (also not included in the business unit previously leased under the agreement entered into on December 21, 2010).

Real estate owned by Corticella, which was explicitly excluded from the Corticella Business Unit, was leased to Newlat through a lease agreement including an option to purchase. The consideration to be paid in the event of the option being exercised was €17,002 thousand. Subsequently, Newlat transferred the option to purchase the property to its sole shareholder Newlat Group S.A..

As a result of the Acquisition of Newlat Deutschland and the Acquisition of the Corticella Business Unit relating to the transformation of durum wheat into flour at the processing plant in Bologna, both of which meet the criteria of business combinations under common control under IFRS (as defined below), the Issuer is considered to have a “complex financial history” as defined by the provisions of Article 18 of the Commission Delegated Regulation 2019/980. Accordingly, the results, financial position and cash flows of the Newlat Group for the periods covered by this Offering Circular (namely, the business controlled by the Issuer at the Date of this Offering Circular) are presented based on combined financial information.

With respect to the original scope of consolidation, this document presents financial information relating to the Newlat Group for financial years 2018, 2017 and 2016 including, from January 1,, 2016:

- (i) balances relating to Newlat Deutschland, reflecting the binding agreement entered into on June 27, 2019 regarding the Acquisition of Newlat Deutschland; and
- (ii) balances relating to that part of the Corticella business unit not previously leased, reflecting the business unit purchase agreement signed on May 23, 2017.

Figures relating to the Corticella business unit reflect the results, financial position and cash flows reported in the Corticella financial statements, subject to specific carve-out criteria.

The Combined Consolidated Financial Statements are therefore based on:

- (i) the consolidated financial statements of Newlat Food S.p.A., prepared in accordance with IFRS (as defined below), as of and for the years ended December 31, 2018, 2017 and 2016 approved by the Company’s Board of Directors on June 12, 2019, June 6, 2018 and June 14, 2017 respectively and audited by PricewaterhouseCoopers S.p.A., which issued unqualified audit reports on June 19, 2019, June 25, 2018 and June 22, 2017 respectively;
- (ii) the separate financial statements of Newlat Deutschland, prepared in accordance with IFRS (as defined below), as of and for the years ended December 31, 2018, 2017 and 2016, audited

by PKF Fasselt Schlage, which issued unqualified audit reports on June 19, 2019, May 25, 2018 and April 15, 2017 respectively; and

(iii) the accounting records of Corticella as of June 30, 2017 and December 31, 2016.

The following paragraphs provide details of the main events during the period under review that had a significant impact on the financial information reported in the Combined Consolidated Financial Statements.

The real estate reorganization

On March 7, 2017, the extraordinary shareholders' meeting of Newlat approved the spin-off of certain real estate assets, involving the transfer of a share of the net assets of Newlat to a newly established company New Property. The spin-off, which was approved on February 24, 2017, was based on the company's assets and liabilities as of December 31, 2016.

The spin-off agreement was signed on May 23, 2017 and became effective on June 1, 2017. The transaction constitutes a partial pro rata spin-off, involving the spin-off of a share of the net assets of Newlat to a newly established company New Property, which in exchange assigned ownership of its shares to Newlat Group S.A., the sole shareholder of Newlat (hereafter the "**New Property Spin-off**").

The real estate assets owned by New Property were then leased to Newlat under specific lease contracts.

In addition, on December 31, 2017, the carve-out of the real estate properties owned by Corticella and explicitly excluded from the acquisition of the Corticella business unit was arranged, as Newlat had transferred the option to purchase the real estate to its sole shareholder Newlat Group S.A.. The properties were previously held under a business unit lease agreement and subsequently under a lease agreement including an option to purchase for a consideration of €17,002 thousand.

The New Property Spin-off and the carve-out of the Corticella real estate are jointly referred to as the "**Real estate Reorganization**".

Unlike the Acquisition of Newlat Deutschland and the Acquisition of the Corticella Business Unit, the Real estate Reorganization is not considered a business combination under common control under IFRS, but rather a spin-off of fixed assets and financial liabilities. The net assets involved in such spin-off do not meet the definition of a "business", but rather represent a group of assets and related financial liabilities. As a result, in preparing the Combined Consolidated Financial Statements the effects of such transactions have been recognised based on the relevant effective dates, in line with the provisions of the relevant accounting standards.

The following table shows the balance sheet effects of the Real estate Reorganization as of the effective date of the transactions described above:

<i>(In € thousands)</i>	Assets	Liabilities
Property, plant and equipment	(190,082)	-
Investment properties	(17,280)	-
Other current assets and receivables	32,818	-
Equity	-	(63,467)
Deferred tax liabilities	-	(28,833)
Borrowings	-	(46,924)
- of which to Newlat Group	-	(40,000)
- of which to third parties	-	(6,924)
Other liabilities	-	(35,320)
Total	(174,544)	(174,544)

“Property, plant and equipment” and “Investment property” include the properties involved in the spin-off and the carve-out.

Other current assets and receivables relate to the amounts due from New Property in respect of the difference between the book values of the assets and liabilities involved in the spin-off between the date of the New Property Spin-off and December 31, 2016, the accounting reference date used for the spin-off.

Borrowings relate to: (i) amounts due to banks in respect of three mortgage and loan agreements attributed to the net assets of the recipient company in the context of the transaction in question; and (ii) the payable relating to two loans granted by the controlling entity Newlat Group S.A., amounting to €25,000 thousand and €15,000 thousand respectively. Such legal commitments were transferred in the context of the New Property Spin-off.

The deferred tax liabilities relate to the real estate properties and are recognized in the context of the revaluations effected in transitioning to IFRS (as defined below) in 2014 in relation to land and buildings included in the spin-off.

The other liabilities relate to: (i) the payable due to Corticella, amounting to €17,002 thousand, as consideration for the contractually agreed real estate purchase option, waived in favour of Newlat Group S.A.; (ii) the residual payable of €9,150 thousand due to Newlat Group S.A. in relation to the acquisition of 100% of the share capital of IAR S.p.A. (which was subsequently merged by incorporation into Newlat); and (iii) the residual payable of €9,168 thousand relating to the purchase price of the plant located in Reggio Emilia.

2 SUMMARY OF ACCOUNTING POLICIES AND CRITERIA USED IN PREPARING THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

The most significant accounting policies and criteria used in preparing the Combined Consolidated Financial Statements are described below.

The Combined Consolidated Financial Statements have been prepared based on information known when preparing the consolidated financial statements of Newlat Food S.p.A., the accounting balances prepared in accordance with IFRS (as defined below) of Newlat Deutschland and the accounting records of Corticella. The Combined Consolidated Financial Statements do not, therefore, include the effects of events known subsequent to such dates.

The Combined Consolidated Financial Statements have been prepared without proforma adjustments, in continuity with the amounts included in the consolidated financial statements of Newlat Food S.p.A., the accounting balances prepared in accordance with IFRS (as defined below) of Newlat Deutschland and the accounting records of Corticella.

2.1 Basis of preparation

The Combined Consolidated Financial Statements comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows, as well as explanatory notes.

Assets and liabilities included in the statement of financial position are classified in terms of whether they are current or non-current.

An asset is classified as current when:

- it is expected that it will be realised, or it is held for sale or consumption, during the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected that the asset will be realised within twelve months after the reporting period; or
- the asset is cash or a cash equivalent (unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period).

All other assets are classified as non-current. Specifically, IAS 1 uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature.

A liability is classified as current when:

- it is expected that it will be settled during normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there exists no unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

In the income statement, costs are classified based on their economic purpose.

The formats of the statement of financial position and income statement in the Combined Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016 are the same as those in the consolidated financial statements of Newlat as of and for the year ended December 31, 2018. It is also noted that, in order to ensure greater comparability of figures, the formats of the statement of financial position and income statement as presented in 2018 have been retrospectively adopted for prior years to recognise the changes introduced by IFRS 9, IFRS 15 and IFRS 16.

The statement of comprehensive income includes the result for the year as well as those categories of income and expense that, in accordance with IFRS, are recognised directly in equity.

The statement of changes in equity includes, in addition to total comprehensive income for the period, details of transactions with shareholders and movements in reserves during the year.

The statement of cash flows is prepared using the indirect method whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The Combined Consolidated Financial Statements are prepared in Euro, the Company's functional currency. Unless otherwise stated, all financial amounts, explanatory notes and tables are presented in thousands of Euro.

The Combined Consolidated Financial Statements have been prepared

- on the basis of existing IFRS;
- on a going concern basis, using the accrual basis of accounting, respecting the principle of materiality and significance, ensuring the prevalence of substance over form and with a view to facilitating consistency with future financial statements. Neither assets and liabilities nor income and expenses are offset, unless required or permitted by an IFRS;
- on a historical cost basis, except in relation to the measurement of financial assets and liabilities that under IFRS must be recognised at fair value.

Principles for the preparation of the Combined Consolidated Financial Statements

The Combined Consolidated Financial Statements have been prepared in order to represent the assets, liabilities, revenues and costs directly and indirectly attributable to Newlat Group, including Newlat Deutschland and, until June 30, 2017, including the portion of the business of Corticella, as reported above.

The financial information has been prepared including, starting from January 1, 2016, the balances relating to Newlat Deutschland and to the portion of the business of Corticella.

In particular, the inclusion of Newlat Deutschland was carried out through the aggregation of the related balances to the original perimeter of reference of the consolidated financial statements of the Newlat Group, eliminating the balances relating to the transactions between Newlat Deutschland and the other companies of the group.

The financial data relating to the portion of business of Corticella, aggregated up to June 30, 2017, have been prepared on the basis of the historical financial information extracted from the Corticella's financial statements, to which specific carve-out criteria were applied

With regard to the criteria used to combine financial information, it is noted that the acquisition of Newlat Deutschland and the Acquisition of the Corticella Business Unit are business combinations of entities under common control and, as such, are accounted for in accordance with the Preliminary Guidance on IFRS of the Association of Italian Auditors (OPI 1 – Revised). Specifically, such business combinations were entered into for reasons other than the transfer of control and in substantive terms are corporate reorganizations. From this viewpoint, as the transactions in question had no significant impact on the pre and post-acquisition cash flows of the net assets transferred, they are accounted for as a continuation of previous financial statements. In addition, it is noted that as the transactions were settled through payment of a cash consideration, the difference between the amount transferred (the cash consideration) and the book values of the assets transferred represents a transaction with shareholders and is accounted for as a distribution of equity by the acquiring entity.

As noted above, unlike the Acquisition of Newlat Deutschland and the Acquisition of the Corticella Business Unit, the Real estate Reorganization is not considered a business combination under common control under IFRS (as defined below), but rather a spin-off of fixed assets and financial liabilities that do not meet the definition of a “business”. As a result, in preparing the Combined Consolidated Financial Statements the effects of such transactions have been recognised based on the relevant effective dates, in line with the provisions of the relevant accounting standards.

2.2 Declaration of conformity with international accounting standards

The Combined Consolidated Financial Statements have been prepared in accordance with the International Accounting Standards adopted by the European Union. The designation “IFRS” includes all “International Financial Reporting Standards”, all “International Accounting Standards” (“IAS”) and all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”).

2.3 Basis and principles of consolidation

The Combined Consolidated Financial Statements include the financial statements of the Company and its subsidiaries as approved by the respective boards of directors and prepared based on the accounting records of the individual companies, adjusted as necessary to align them with IFRS. As noted above, the Combined Consolidated Financial Statements include, from January 1, 2016, the results, financial position and cash flows of Newlat Deutschland and the Corticella Business Unit relating to the transformation of durum wheat into flour at the processing plant in Bologna.

The year-end reporting date of the consolidated entities is the same as that of the Issuer.

The following table provides, for each of the companies included within the scope of the Combined Consolidated Financial Statements, a summary of the company name, location of registered office, functional currency and share capital as of December 31, 2018.

Company	Registered office	Currency	Share capital as of December 31, 2018
Newlat Food S.p.A.	Italia - Via J.F. Kennedy 16, Reggio Emilia	EUR	27,000,000
Newlat Deutschland	Germania - Franzosenstrabe 9, Mannheim	EUR	1,025,000
Centrale del latte di Salerno	Italia - Via Fuorni di Sotto 86, Salerno	EUR	4,165,915

All of the companies included within the scope of the consolidation are consolidated on a line by line basis and there were no minority interests as of the reference dates reported.

The Combined Consolidated Financial Statements also include the results, financial position and cash flows of the Corticella Business Unit relating to the transformation of durum wheat into flour at the processing plant in Bologna, for the period from January 1,, 2016 to June 30, 2017, based on the effective date of the Acquisition of the Corticella Business Unit.

In preparing the Combined Consolidated Financial Statements, all balances and transactions between companies included within the scope of consolidation have been eliminated and therefore the Combined Consolidated Financial Statements do not include such transactions.

There were no changes in the scope of consolidation during the period under review.

Subsidiaries

An investor controls an investee when: (i) it is exposed, or has rights, to variable returns from its involvement with the investee; and ii) it has the ability to affect those returns through its control over the investee. The existence of control is verified each time that facts or circumstances indicate a change in one of the aforementioned control criteria. Subsidiaries are consolidated using the line-by-line method, from the date that control is obtained until the date that such control ceases when it is transferred to third parties. 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 minority interests, where applicable, their share of equity and profit or loss for the year which are shown separately in equity and in the consolidated statement of comprehensive income;
- gains and losses including any tax effects resulting from transactions between fully consolidated Group companies, which have not been realised with third parties at the end of the reporting period, are eliminated, other than losses that result from transactions involving a reduction in value of the asset transferred. Receivables and payables, costs and revenues and finance income and expenses between companies included in the scope of consolidation are also eliminated.

Translation of foreign currency balances

Transactions in foreign currencies are recorded at the current exchange rate in force on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in force on the reporting date. Foreign exchange differences are shown in the income statement under “Exchange rate gains/(losses)”.

Inter-company transactions

Profits resulting from transactions between fully consolidated group companies, which have not been realised with third parties at the end of the reporting period, are eliminated, as are receivables and payables, income and expenses, guarantees, commitments and risks. Losses resulting from inter-company transactions are not eliminated as they are considered to represent a reduction in value of the asset transferred.

2.4 Accounting policies and criteria

Accounting policies

The Combined Consolidated Financial Statements have been prepared in accordance with international financial reporting standards as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as of the reporting date for each year under review.

In preparing these Combined Consolidated Financial Statements, the Group has chosen to make use of the option to adopt IFRS 16 - Leases from January 1,, 2018, in advance of its effective date of January 1,, 2019, adopting the “modified retrospective approach”. IFRS 16 replaces IAS 17 – Leases as well as IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC15 - Operating Leases-Incentives and SIC27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

With regard to the introduction of the new international accounting standards IFRS 9 “Financial Instruments” and IFRS 15 “Revenues from contracts with customers”, the Group has applied such standards since their effective date of January 1,, 2018, without restating comparative balances.

The following paragraphs describe the criteria adopted regarding the classification, recognition, measurement and derecognition of assets and liabilities as well as the criteria used to recognise income statement items.

Property, plant and equipment

Items of property, plant and equipment are capitalised and accounted for as tangible fixed assets only when both of the following conditions are satisfied:

- it is likely that the future economic benefits generated by the asset will be enjoyed by the company; and
- the cost of the asset can be determined reliably.

Items of property, plant and equipment are initially recorded at cost, defined as the monetary amount or equivalent consideration paid or the fair value of other consideration paid to acquire an asset on the date of its purchase or substitution. Subsequently, property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes amounts directly attributable to enabling the asset to be used as well as any expected costs of dismantling and removing the asset and restoring it to its original condition if a contractual obligation exists.

Expenses incurred for ordinary and/or cyclical maintenance and repairs are charged directly to the income statement in the year incurred. The capitalization of costs inherent to the expansion, modernization or improvement of facilities owned or used by third parties is recorded solely to

the extent that they meet the conditions for being classified separately as an asset or part of an asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the individual assets. The estimated useful life by class of property, plant and equipment is as follows:

Asset class	Useful life
Land and buildings	10-33 years
Plant and machineries	4-20 years
Industrial and commercial equipment	2-9 years
Other assets	5-20 years

At the end of each year, the company determines whether there have been any significant changes in the expected economic benefits to be derived from capitalised property, plant and equipment and, in such case, makes appropriate changes to the relevant depreciation rate, which is considered a change in accounting estimate as described in IAS 8.

Property, plant and equipment is derecognised when it is sold or otherwise disposed of or when it is expected that no economic benefit can be derived from its sale.

Capital grants are recognised when there is reasonable certainty that they will be received and that all of the conditions relating to them have been satisfied. Grants are therefore deducted from the value of the related assets or accounted for as liabilities and credited to the income statement over the useful economic lives of the related assets.

Intangible assets

An intangible asset is an asset that meets the following conditions:

- it can be identified;
- it is non-monetary;
- it is without physical substance;
- it is under the control of the company that prepares the financial statements; and
- it is expected to produce future economic benefits for the company.

If an asset does not meet all of the above requirements to be considered an intangible asset, the amount incurred to acquire or produce the item internally is expensed when it is incurred.

Intangible assets are initially recognised at cost. The cost of assets acquired externally includes both the purchase price and any cost that may be directly attributed.

Internally generated goodwill is not recognised as an asset, nor are intangible assets recognised in relation to research (or the research phase of an internal project).

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits: among other things, the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are measured using the cost model, applying one of the two methods (the cost model and the revaluation model) permitted by IAS 38. The cost model provides that after initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and impairment losses.

The estimated useful lives of the various classes of intangible assets are as follows:

Asset class	Useful life
Goodwill	indefinite
Trademarks Drei Glocken and Birkel	indefinite
Other trademarks	18 years
Software licenses	5 years
Other intangible assets	5 years

The most significant intangible assets held by the Group are as follows:

Goodwill

Goodwill is recognised as an intangible asset with an indefinite useful life. It is initially measured at cost, as previously described, and subsequently tested for impairment at least annually to identify if goodwill is impaired (see the following paragraph “Impairment of goodwill and tangible, intangible and right of use assets”). Impairment losses recognised for goodwill may not be reversed in subsequent periods.

Trademarks with an indefinite useful life

Trademarks deemed to have an indefinite useful life are not amortized but their carrying amount is tested for impairment at least once a year.

Intangible assets with a finite useful life

Intangible assets with a finite useful life are recognised at cost, net of accumulated amortization and impairment losses, if any.

Amortization starts when the asset is available for use and is charged systematically over the residual estimated useful life; for details regarding amounts to be amortised and the recoverability of the recognised values of such assets, see the paragraphs on “Property, plant and equipment” and “Impairment of goodwill and tangible, intangible and right of use assets” respectively.

Investment properties

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both.

Investment property, whether purchased or constructed, is measured initially at cost, including transaction costs. In the former case, the purchase cost includes professional fees for legal services, property transfer taxes and other transaction costs. Subsequently, investment property is measured at amortized cost.

Lease contracts

a) Right of use assets and lease liabilities – December 31, 2018 (IFRS 16)

The Group has elected for early adoption of the new accounting standard IFRS 16 “Leases”, which replaces IAS 17 “Leasing” and its related interpretations.

In accordance with IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The contract is then reassessed to determine whether it is, or contains, a lease only if the terms and conditions of the contract are changed.

For a contract that is, or contains, a lease, each lease component within the contract is accounted for as a lease separately from non-lease components of the contract, unless the Group applies the practical expedient in paragraph 15 of IFRS 16. Under such practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The lease term is the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option. The lessee shall revise the lease term if there is a change in the non-cancellable period of a lease.

At the commencement date, the Group recognises a right of use asset and a lease liability.

At the commencement date, the right of use asset is measured at cost. The cost of the right of use asset comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

At the commencement date, the lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as of the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments are discounted to their present value using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate (the rate of interest it would have to pay to borrow a similar sum over a similar term as the lease contract).

Following initial recognition, the right-of-use asset is measured applying a cost model:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability.

Following initial recognition, the lease liability is measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

For a lease modification that is not accounted for as a separate lease, the right of use asset is remeasured (up or down) in line with the change in the lease liability at the modification date.

The lease liability is remeasured based on the new contract conditions, using the discount rate at the effective date of the modification.

The Group has elected to exploit two exceptions permitted by IFRS 16, regarding: (i) short-term leases (leases that, at the commencement date, have lease terms of 12 months or less) for certain types of asset; and (ii) leases for which the underlying asset is of low value (leases for which the underlying asset value, when new, is less than USD 5,000). In such cases the right of use assets and related lease liabilities are not recognised, and lease payments are charged directly to the income statement.

b) Lease contracts at December 31, 2017 and 2016 (IAS 17)

Assets acquired under finance leases, which transfer substantially all the risks and rewards of ownership, are accounted for as assets and liabilities (representing the related payable) at the lower of the fair value of the asset and the present value of the minimum lease payments. Finance lease payments are apportioned between the finance charge, recognized in the income statement, and the reduction of the outstanding liability.

Leases where the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs relating to operating leases are recognised as an expense in the income statement over the lease term on a straight-line basis.

Impairment of goodwill and tangible, intangible and right of use assets

At each balance sheet date, the Group assesses whether there are any indications of impairment of tangible and/or intangible assets that have not been wholly depreciated/amortized and/or assets with a finite useful life.

When indicators of impairment exist, the recoverable amount is estimated and the carrying amount of the asset reduced accordingly, with the impairment loss being charged to the income statement. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use, where value in use is determined by discounting the asset's estimated future cash flows including, if materially significant and reasonably certain, those relating to disposal of the asset at the end of its useful economic life, less any costs of disposal. In calculating the value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

If the carrying amount of an asset or the CGU to which it belongs exceeds the recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Such impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to other assets of the unit in proportion to their carrying amounts, while respecting their relative recoverable amounts. If the conditions that gave rise to an impairment loss no longer exist, the asset is revalued to the revised estimate of its recoverable amount, up to the value that would have been recorded, net of amortization, had no impairment loss been recognised, with the increase being recognised in the income statement. Impairment losses recognised for goodwill may not be reversed in subsequent periods.

Financial assets

On initial recognition, financial assets are classified as “Financial assets at amortised cost”, “Financial assets at fair value through other comprehensive income” or “Financial assets at fair value through profit or loss” based on:

- the entity’s business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Financial assets are derecognised when, and only when, disposal involves the substantial transfer of all the risks and rewards of ownership of the financial asset. If, on the other hand, the company retains substantially all the risks and rewards of ownership of the financial asset, it must continue to recognise the financial asset, even if legal ownership has effectively been transferred.

Financial assets at amortised cost

a) Financial assets at amortised cost – December 31, 2018 (IFRS 9)

Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a “Hold to collect” business model, the objective of which is to hold financial assets in order to collect contractual cash; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that pass the SPPI test).

At initial recognition, such assets are measured at fair value including directly attributable transaction costs or income. Subsequent to initial recognition, such financial assets are measured at amortised cost, calculated using the effective interest method. The amortised cost method is not used for those assets (measured at historical cost) whose short-term nature means there is no requirement to discount to present value, assets with no set maturity date or revocable credit lines.

This category mainly includes trade receivables for the transfer of goods and provision of services, which in accordance with IFRS 15 are recognised based on the terms of the relevant customer contract and classified according to the nature of the counterparty and/or the due date of the receivable (such definition includes invoices still to be issued for services already provided).

As trade receivables are typically short-term in nature and do not involve payment of interest, amortised cost is not calculated and they are accounted for at the nominal value stated on the invoice or in the customer contract: such arrangement is followed even for those receivables due after more than 12 months, so long as the effect is not greatly significant. This is due to the fact that the value of short-term receivables is very similar whether the historical cost method or amortised cost method is adopted, and the impact of discounting is insignificant.

Trade receivables are tested for impairment in accordance with the requirements of IFRS 9. For measurement purposes, trade receivables are categorised by due date. Performing receivables are measured collectively, grouping individual exposures based on similar credit risk. The measurement process involves reviewing losses suffered on assets with similar credit risk based on past experience and considers expected losses.

b) Financial assets measured at amortised cost as classified at December 31, 2017 and 2016 (IAS 39)

These are financial assets other than derivatives with fixed or determinable payments and fixed maturity dates and are not quoted in an active market.

Such financial assets are initially measured at fair value, which is normally represented by the agreed consideration or the present value of the amount to be received. They are subsequently measured at amortized cost using the effective interest method, reduced in the case of loss of value.

This category of asset mainly includes trade receivables resulting from the transfer of goods and provision of services, recognised based on the terms of the relevant customer contract (in accordance with IAS 18) and classified according to the nature of the counterparty and/or the due date of the receivable (such definition includes invoices still to be issued for services already provided).

As trade receivables are typically short-term in nature and do not involve payment of interest, amortised cost is not calculated and they are accounted for at the nominal value stated on the invoice or in the customer contract: such arrangement is followed even for those receivables due after more than 12 months, so long as the effect is not greatly significant. This is due to the fact that the value of short-term receivables is very similar whether the historical cost method or amortised cost method is adopted, and the impact of discounting is insignificant.

Trade receivables are tested for impairment in accordance with the requirements of IFRS 9. For measurement purposes, trade receivables are categorised by due date. Performing receivables are measured collectively, grouping individual exposures based on similar credit risk. The measurement process involves reviewing losses suffered on assets with similar credit risk based on past experience.

Financial assets at fair value through other comprehensive income

a) Financial assets at fair value through other comprehensive income – December 31, 2018 (IFRS 9)

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a “Hold to collect and sell” business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that pass the SPPI test).

At initial recognition, such assets are measured at fair value including directly attributable transaction costs or income. Subsequent to initial recognition, equity interests (other than investments in subsidiaries, associates or joint ventures) are measured at fair value, with the offsetting amounts recognised in equity and not subsequently reclassified to profit or loss, even in the event of sale. Related dividends represent the only relevant component recognised in the income statement.

For securities included in this category not quoted in an active market, cost is used as an estimate for fair value under certain limited circumstances, such as when recent information to measure fair value is insufficient or there exists a broad range of possible measures of fair value and cost is considered to be the best estimate of these.

Financial assets at fair value through profit or loss

a) Financial assets measured at fair value through profit or loss - December 31, 2018 (IFRS 9)

This category includes all financial assets other than those classified as “Financial assets at fair value through other comprehensive income” or “Financial assets at amortised cost”. Specifically, the item only includes capital instruments held for reasons other than trading that the Group has not opted to measure at fair value through other comprehensive income and bonds.

Financial assets measured at fair value through profit or loss are initially recognised at fair value, normally represented by the transaction price.

Subsequently, such financial assets are measured at fair value. Any gains or losses relating to changes in fair value are recognised in the consolidated income statement.

b) Financial assets at fair value through profit or loss as classified at December 31, 2017 and 2016 (financial assets held for trading based on LAS 39)

A financial asset is classified as held for trading if:

- it is acquired with a view to being sold in the short term;
- it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- it is a derivative (except effective hedging instruments).

At initial recognition, financial assets held for trading are measured at fair value, normally represented by the transaction price, excluding directly attributable transaction costs.

Subsequently, such financial assets are measured at fair value. Any gains or losses relating to changes in fair value are recognised in the consolidated income statement.

Capital instruments for which it is not possible to reliably determine their fair value are measured at cost.

Inventories

Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are recognised and measured at the lower of cost and net realisable value.

The cost of inventories includes all purchase costs, transformation costs, and other costs incurred to bring the inventories to their current location and condition; inventory costs do not

include exchange rate differences in the case of inventories invoiced in foreign currency. In compliance with the provisions of IAS 2, the cost of inventories is calculated using the weighted average cost method.

If net realisable value is lower than cost, the difference is immediately recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents are recognised, depending on their nature, at nominal value or at amortised cost. Other cash equivalents represent highly liquid short-term financial assets that can be easily converted to known cash amounts and are subject to negligible risk of change in their value, and which have an original maturity, on purchase, of less than three months.

Payables

Payables relating to the financial year ended December 31, 2018 (IFRS 9 from January 1, 2018) and to the financial years ended December 31, 2017 and 2016 (IAS 39 until December 31, 2017)

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

Amounts due to banks and other lenders are initially recognised at fair value, net of directly attributable accessory costs, and later are measured at amortised cost, using the effective interest rate method. If there is a change in the estimate of the expected cash flows, the value of the liability is recalculated to reflect such change based on the present value of the new expected cash flows and the internal effective interest rate as calculated initially. Payables to banks and other lenders are classified as current liabilities, unless the Group has an unconditional right to postpone payment for at least twelve months after the reference date.

Payables are derecognised when settled and when the Group has transferred all risks and the charges related to the instrument.

Employee benefit obligations

Employee benefit obligations are benefits granted to employees or their dependants, settled through cash payments (or through the supply of goods and services) directly to the employees, their spouses, children or other dependants, or to third parties, such as insurance companies. They include short-term benefits, benefits due to employees on termination of their employment contract and post-employment benefit plans.

Short-term employee benefit obligations include incentive schemes such as annual bonuses, the MBO and the one-off renewals of the national collective labour agreements and are recognised as liabilities (accrued expenses) after deducting any advances paid, and costs, unless a given IFRS requires or allows the inclusion of such benefits in the cost of a capitalised asset (such as, for example, staff costs relating to the development of internally generated intangible assets).

Benefits relating to the termination of employment include voluntary redundancy incentive schemes, which in the case of voluntary redundancy provide for the employee or group of employees taking part in trade union agreements involving the use of so-called solidarity funds, and (non-voluntary) redundancy arrangements, which apply in the case of termination of employment as a result of a unilateral decision by the company. The company recognises the cost of such benefits as a liability due as of the earlier between the date the company can no longer withdraw the offer of such benefits and the time when the company recognises the costs

of a corporate restructuring exercise that falls within the provisions of IAS 37. The provisions for voluntary redundancies are reviewed at least every six months.

Post-employment benefit plans may be split into two categories: defined-contribution plans and defined-benefit plans.

Defined-contribution plans mainly include:

- complementary pension funds that involve a defined contribution being made by the company;
- the share of the employee severance indemnity fund accruing since January 1, 2007, for companies with more than 50 employees, whatever the allocation option chosen by the employee;
- the share of the employee severance indemnity fund accruing since January 1, 2007 allocated to complementary pension funds, in the case of companies with less than 50 employees;
- complementary healthcare plans.

Defined-benefit plans on the other hand include:

- the employee severance indemnity accrued until December 31, 2006 for all companies, as well as the share accrued since January 1, 2007 and not allocated to complementary pension funds, for companies with less than 50 employees;
- complementary pension funds, which provide for the payment a defined benefit to members;
- seniority payments, which provide for a one-off payment to employees who reach a given seniority level.

With defined-contribution plans, the company's obligation is calculated based on the contributions due for the year in question and, therefore, the valuation of the obligation does not require actuarial assumptions and there are no actuarial profits or losses.

The accounting for defined-benefit schemes involves the use of actuarial assumptions to calculate the value of the obligation. Measurement of the obligation is performed by an independent actuary on an annual basis. The projected unit credit method is used to calculate the present value of future cash flows, based on historical/statistical analyses, demographic assumptions and the discounting of such cash flows at a market interest rate. In accordance with IAS 19, actuarial gains and losses are recognised in equity.

Provisions for risks and charges, contingent assets and liabilities

Contingent assets and liabilities may be split into different categories according to their nature and accounting implications. Specifically:

- provisions are effective obligations of uncertain amount and timing arising from past events and for which it is likely that there will be an outlay of financial resources and a reliable estimate of the amount is possible;

- contingent liabilities are possible obligations for which the likelihood of an outlay of financial resources is not remote;
- remote liabilities are those for which the outlay of financial resources is not likely;
- contingent assets are assets that do not meet the certainty requirement and as a result are not recognised in financial statements;
- an onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
- a restructuring is a programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

For cost recognition purposes, provisions are recognised when there is uncertainty about the timing or amount of the future expenditure required to settle the obligation or other liabilities, and in particular trade payables or accruals.

Provisions differ from other liabilities because there is uncertainty about the timing or amount of the future expenditure required in settlement. Given their different nature, provisions are shown separately from trade payables and accruals.

A liability or provision is recognised when:

- there is a current legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions require the use of estimates. In extremely rare cases, when a reliable estimate cannot be made, this results in a liability that cannot be reliably estimated and is therefore considered a contingent liability.

Allocations are made to the provisions for risks and charges for amounts that represent the best estimates of the expenditure required to settle the obligations existing at the reporting date, taking into account the risk and uncertainty that inevitably surround many events and circumstances. The size of a provision reflects the potential future events that may affect the amount required to settle an obligation if there exists sufficient objective evidence that these will take place.

Once the best estimate of the expenditure required to settle the existing obligation has been determined, the present value of the provision is calculated in the case in which the time value of money is material.

Revenue from contracts with customers

a) Revenue from contracts with customers relating to the year ended December 31, 2018 (IFRS 15)

The Group has applied IFRS 15 since January 1, 2018. In accordance with such standard, revenue from contracts with customers is recognised when the following conditions are met:

- the contract with a customer has been identified;
- the performance obligations in the contract have been identified;
- the transaction price has been determined;
- the transaction price has been allocated to the performance obligations in the contract; and
- when the related performance obligation contained in the contract is satisfied.

The Group recognises revenue from contracts with customers when (or as) it satisfies its performance obligations, by transferring the promised goods or services (i.e. an asset) to the customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced;
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, it is satisfied at a point in time. In such case, the Group recognises revenue at the moment the customer acquires control of the promised asset.

The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount (e.g. discounts, price concessions, incentives, penalties or other similar items), the Group estimates the amount of consideration to which it is entitled in exchange for transferring the promised goods or services to a customer. The Group includes a variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Incremental costs of obtaining a contract with a customer are recognised as assets and, to the extent the Group expects to recover them, amortised over the duration of the underlying contract. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the

contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

b) *Revenue from contracts with customers relating to the years ended December 31, 2017 and 2016 (IAS 18)*

In accordance with IAS 18 “Revenue”, which was applied during the years ended December 31, 2017 and 2016, revenue is recognised based on the consideration received, net of rebates, discounts and promotions.

Revenue from the sale of goods is recognised when the seller has transferred to the buyer the significant risks and rewards of ownership, which normally takes place on product delivery.

Cost recognition

Costs are recognised in the income statement on an accruals basis.

Dividends

Dividend income is recognised in the income statement on an accruals basis, when the right to receive such dividends is created following approval of the dividend distribution resolution of the relevant investee company shareholders’ meeting.

Dividends distributed are recorded as changes in equity in the year in which they are approved by the company’s shareholders’ meeting.

Income tax

Current income taxes are calculated based on taxable income for the year, applying tax rates in force at the reporting date. Taxes due for the current year and for previous years, to the extent as yet unpaid, are recognised as liabilities. Income tax receivables and payables, for the current and previous years, represent the amounts that are likely to be recovered from/paid to the tax authorities, applying the tax rates and the tax laws in force, or effectively issued, at the reporting date.

Deferred taxes include:

- deferred tax liabilities: these represent income taxes due in the future years in respect of the tax effects of temporary differences;
- deferred tax assets: these represent income taxes amounts that may be recovered in future years in respect of deductible temporary differences, carry forward of unused tax losses, and carry forward of unused tax credits.

Deferred tax liabilities and assets are calculated by applying the tax rate to the temporary differences identified, whether taxable or deductible, unused tax losses or unused tax credits.

At each reporting date, both unrecognised and recognised deferred tax assets are remeasured to confirm the likelihood of recovering such deferred tax assets.

Earnings per share

Basic earnings per share is calculated by dividing the result for the year attributable to the Group by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

Diluted earnings per share is calculated by dividing the result for the year attributable to the owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. 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 exercised by all the grantees of such rights, and the result attributable to the owners of the parent is adjusted to take into account the effects, if any, net of tax, of the exercise of those rights.

Operating segments

An operating segment is a component of the group that: engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the Chairman of the Board of Directors in his role as Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

2.5 Recently issued accounting standards

Accounting standards not yet applicable as not yet endorsed by the European Union

As of the date of approving these Combined Consolidated Financial Statements, the following standards and amendments had not yet been endorsed by the EU.

Standard/amendment	Endorsed by EU	Effective date
<i>IFRS 17 Insurance Contracts</i>	NO	Years beginning on or after January 1,, 2022
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>	NO	Years beginning on or after January 1,, 2020
<i>Amendment to IFRS 3 Business Combinations</i>	NO	Years beginning on or after January 1,, 2020
<i>Amendments to LAS 1 and LAS 8: Definition of Material</i>	NO	Years beginning on or after January 1,, 2020

Accounting standards, amendments and interpretations endorsed by the European Union but not yet adopted by the Group

As of the date of approving these Combined Consolidated Financial Statements, the following standards and amendments had been endorsed by the EU, but not yet adopted by the Group:

Standard/amendment	Description	Effective date
<p><i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i></p>	<p>On December 12, 2017, the IASB published amendments to four standards, relating specifically to the following:</p> <p><u>IFRS 3 – “Business Combinations”</u>: obtaining control of a business classified as a joint operation shall be accounted for as a business combination achieved in stages and the previously held interest in the joint operation shall be remeasured at fair value on the date control is acquired;</p> <p><u>IFRS 11 – “Joint Arrangements”</u>: in the event of obtaining joint control of a business classified as a joint operation, the previously held interest in the joint operation should not be remeasured at fair value;</p> <p><u>IAS 12 – “Income Taxes”</u>: the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognized;</p> <p><u>IAS 23 – “Borrowing Costs”</u>: if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.</p> <p>Potential impacts on the Group financial statements are under review.</p>	<p>Years beginning on or after January 1,, 2019</p>
<p><i>Amendments to IAS 19: Plan Amendment, Curtailment or Settlement</i></p>	<p>On February 7, 2018 the IASB published the amendment to IAS 19 to make certain amendments regarding “Employee Benefits”.</p> <p>The amendments require an entity to: use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. The Group does not expect there to be any financial impact as a result of the entry into force of such standard.</p>	<p>Years beginning on or after January 1,, 2019</p>
<p><i>Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures</i></p>	<p>On October 12, 2017 the IASB published amendments to IAS 28 to clarify the application of IFRS 9 “Financial Instruments” to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.</p> <p>The Group does not expect there to be any financial impact as a result of the entry into force of such standard.</p>	<p>Years beginning on or after January 1,, 2019</p>
<p><i>IFRIC 23 Uncertainty over Income Tax Treatments</i></p>	<p>On June 7, 2017 the IASB published IFRIC 23 “Uncertainty over Income Tax Treatments”. The interpretation clarifies how the recognition and measurement requirements of IAS 12 should be applied where there is uncertainty over income tax treatments. In such event, the entity should recognise and measure deferred and current income tax assets and liabilities applying the requirements of IAS 12 based on the taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates determined by applying IFRIC 23.</p> <p>The Group does not expect there to be any financial impact as a result of the entry into force of such standard.</p>	<p>Years beginning on or after January 1,, 2019</p>
<p><i>Amendments to IFRS 9: Prepayment Features with Negative Compensation</i></p>	<p>On October 12, 2017 the IASB published the amendment to IFRS 9 to address certain matters regarding prepayable financial assets with negative compensation.</p> <p>The Group does not expect there to be any financial impact as a result of the entry into force of such standard.</p>	<p>Years beginning on or after January 1,, 2019</p>

International accounting standards and/or interpretations endorsed and in force since January 1,, 2018

In accordance with the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” the IFRS effective as of January 1,, 2018 are noted below:

- IFRS 15 - Revenue from Contracts with Customers

The impacts of applying this standard, which replaced IAS 18, are described below in the note on “Impact of adopting IFRS 16, IFRS 15 and IFRS 9”, which describes the impact of initial application of the standard.

- IFRS 9 – Financial Instruments

IFRS 9 replaced IAS 39 with regard to the classification and measurement of financial assets, impairment and hedge accounting. Reference is made to the note on “Impact of adopting IFRS 16, IFRS 15 and IFRS 9”, which describes the impact of initial application of the standard.

- Amendments to IFRS 2 – Share based payments and classification and measurement of share-based payment transactions

The objective of the amendments was to clarify the accounting treatment of certain types of share-based payments. The application of such amendments has had no impact on the Combined Consolidated Financial Statements

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The objective of the interpretation was to determine the exchange rate to be used when translating advance consideration received or paid in a foreign currency. When advances are paid or received, the exchange rate to be used to translate assets, liabilities, income or costs at a later date is the same as that used to translate the advance. There has been no impact on the Combined Consolidated Financial Statements

- Amendments to IAS 40 - Transfers of Investment Property

The amendments further clarify transfers of property to, or from, investment property. The amendments are not applicable to the Combined Consolidated Financial Statements for 2018.

- Annual Improvements to IFRS Standards - 2014-2016 Cycle (published by the IASB in December 2016)

The IASB published amendments to 3 standards in force, with specific regard to the following: clarification of the scope of IFRS 12 - “Disclosure of Interests in Other Entities” – in the case of entities within the scope of IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”; measurement of an investment in an associate or a joint venture held by an entity that is a venture capital organisation in IAS 28 – “Investments in Associates and Joint Ventures”; and deletion of short-term exemptions for those adopting IFRS 1 for the first time in IFRS 1 – “First-time Adoption of IFRS”. The amendments are not applicable to the Combined Consolidated Financial Statements.

- Amendments to IFRS 4 – “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”

The amendments provide guidance regarding the implementation of IFRS 9 “Financial Instruments” for cases within the scope of IFRS 4 “Insurance Contracts”, which is still subject

to modification. The amendments are not applicable to the Combined Consolidated Financial Statements.

International accounting standards and/or interpretations endorsed and in force since January 1,, 2017

In accordance with the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” the IFRS effective as of January 1,, 2017 are noted below:

- Amendments to IFRS 7 – “Statement of Cash Flows”

The objective of the interpretation was to improve disclosure regarding the net cash flow generated/used by investing activities and the entity’s liquidity, specifically where there are restrictions on the use of available cash and cash equivalents included in the cash flow statement. The amendments also require disclosure of changes in assets/liabilities, distinguishing between cash flows and non-cash changes (e.g. changes resulting from the gain or loss of control of a subsidiary or other business, the effect of a change in exchange rates and changes in fair value). Such amendments are reflected in the notes to the Combined Consolidated Financial Statements and specific reference is made in this regard to Note 8.17 – Financial liabilities.

- Amendments to IFRS 12 – “Recognition of deferred tax assets on unrealised losses”

The amendments clarify the accounting for deferred tax assets relating to debt instruments measured at fair value. The amendments are not applicable to the Combined Consolidated Financial Statements.

- Annual Improvements to IFRS Standards - 2014-2016 Cycle (published by the IASB in December 2016)

The IASB published amendments to 3 standards in force, with specific regard to the following: clarification of the scope of IFRS 12 - “Disclosure of Interests in Other Entities” – in the case of entities within the scope of IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”; measurement of an investment in an associate or a joint venture held by an entity that is a venture capital organisation in IAS 28 – “Investments in Associates and Joint Ventures”; and deletion of short-term exemptions for those adopting IFRS 1 for the first time in IFRS 1 – “First-time Adoption of IFRS”. The amendments to IFRS 1 and IAS 28, effective as of January 1,, 2018, are not applicable to the Combined Consolidated Financial Statements.

International accounting standards and/or interpretations endorsed and in force since January 1,, 2016

In accordance with the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” the IFRS effective as of January 1,, 2016 are noted below:

- Amendments to IAS 19 – “Employee Benefits” – defined benefit plans: employee or third-party contributions

The amendments are applicable to contributions from employees or third parties to defined benefit plans and simplify the accounting in certain circumstances. The application of such amendments has had no impact on the Combined Consolidated Financial Statements

- Annual Improvements to IFRS Standards - 2010-2012 Cycle (published by the IASB in December 2013)

The IASB published amendments to 7 standards in force, with specific regard to: the definition of 'vesting condition' in IFRS 2 – “Share-based Payments”; the accounting for contingent

consideration in a business combination in IFRS 3 - Business Combinations”; the aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets in IFRS 8 – “Operating Segments”; the proportionate restatement of accumulated depreciation in IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, as well as certain disclosures regarding key management personnel in IAS 24 – “Related Party Disclosures”. The application of such amendments has had no significant impact on the Combined Consolidated Financial Statements or related Group disclosures.

- Amendments to IFRS 11 – “Joint Arrangements” - accounting for the acquisition of an interest in a joint operation

The amendments to IFRS 11 provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business as defined in IFRS 3. The application of such amendments has had no impact on the Combined Consolidated Financial Statements as during the period as during the period there were no acquisitions of interests in joint operations.

- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation

With such amendments, the IASB clarified that revenue based depreciation is not acceptable as revenues generated by an asset relate to factors other than consumption of the future economic benefits of the asset. Such consumption should be the basis for calculating depreciation. Such amendments have had no impact on the Combined Consolidated Financial Statements as the Group does not use revenue based depreciation methods.

- Amendments to IAS 27 – Use of the equity method in separate financial statements

The amendments restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity’s separate financial statements, including retrospective application. The Group has not elected to make use of such option.

- Annual Improvements to IFRS Standards - 2012-2014 Cycle (published by the IASB in September 2014)

The IASB published amendments to 4 standards in force, with specific regard to the following: changes in methods of disposal in IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”; servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements in IFRS 7 “Financial Instruments: Disclosures”; discount rate to be applied in IAS 19 “Employee Benefits”; and disclosure of information 'elsewhere in the interim financial report' in IAS 34 “Interim Financial Reporting”. The application of such amendments has had no impact on the Combined Consolidated Financial Statements.

- Amendments to IAS 1 – “Presentation of Financial Statements”

The amendments to IAS 1, which were linked to the disclosure initiative, were intended to clarify and improve the provisions of IAS 1 rather than modify the standard in any substantive way. The application of such amendments has had no impact on the Combined Consolidated Financial Statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28 – “Investment Entities: Applying the Consolidation Exception”

The amendments introduce certain clarifications regarding the accounting requirements to be followed in respect of investment entities. The amendments have no implications for the Group as none of the Group companies qualifies as an investment entity pursuant to IFRS 10.

Impact of adopting IFRS 16, IFRS 15 and IFRS 9

This note describes the impact on the Combined Consolidated Financial Statements of having adopted IFRS 16 “Leases”, IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments”.

In preparing the Combined Consolidated Financial Statements, the Group elected for early adoption of IFRS 16, with effect from January 1,, 2018, applying the modified retrospective approach.

The Group adopted IFRS 15 with effect from January 1,, 2018, applying the modified retrospective approach to all customer contracts in place as of the date of initial application.

The Group adopted IFRS 9 with effect from January 1,, 2018, without restating comparative balances.

In order to ensure greater comparability of figures, the format of the statement of financial position as presented in 2018 has been retrospectively adopted for prior years to recognise the changes introduced by IFRS 9 and IFRS 16.

IFRS 16 – Leases

IFRS 16 has replaced IAS 17, as well as IFRIC 4 – “Determining whether an Arrangement contains a Lease”, SIC15 – “Operating Leases-Incentives” and SIC27 – “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. It provides a new definition of a lease and introduces the concept of right of use assets to distinguish lease contracts from service contracts, with identification of the asset, the right to substitute the asset, the right to obtain substantially all of the economic benefits from use of the asset and, finally, the right to direct the use of the underlying asset throughout the period of use.

The standard provides that lessees follow a single new model for the recognition and measurement of lease contracts, which requires that the underlying asset be recognised as a right of use asset together with a lease liability, for an amount equal to the present value of future lease payments. The standard does not, on the other hand, provide for significant changes in the accounting treatment to be followed by lessors.

The standard, which has been endorsed by the EU, is applicable from January 1,, 2019. The Group elected for early adoption, with effect from January 1,, 2018, applying the modified retrospective approach.

The following table shows the impact of adopting IFRS 16 as of January 1,, 2018.

<i>(In € thousands)</i>	As of January 1,, 2018
Right of use assets	22,480
Current lease liabilities	5,151
Non-current lease liabilities	17,329

The following table shows a reconciliation between operating lease commitments as of December 31, 2017 and lease liabilities as of January 1, 2018, following the adoption of IFRS 16.

<i>(In € thousands)</i>	
Operating lease commitments as of December 31, 2017	24,887
Discounting effect	(1,437)
Exercise of renewable options	-
Short term lease contracts	(88)
Low value lease contracts	(882)
Lease liabilities as of January 1, 2018	22,480

In applying IFRS 16 for the first time, the Group has determined whether a contract contains a lease, by applying paragraphs 9-11 of IFRS 16 to the facts and circumstances existing at the transition date. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In the context of the transition to adoption of IFRS 16, and in line with the transition arrangements set out therein, the Group has elected:

- a) to recognise a lease liability as of the date of first time application equal to the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application of IFRS 16 (IFRS 16, App. C, para. C8);
- b) to recognise a right of use asset at the date of first time application for an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of first time application (IFRS 16, App. C, para. C8);
- c) not to make any adjustments on transition for leases for which the underlying asset is of low value (IFRS 16, App. C, para. C9);
- d) to account for those leases for which the lease term ends within 12 months of the date of first time application as short-term leases, recognising the payments due as costs in the annual reporting period that includes the date of first time application (IFRS 16, App. C, para. C10);
- e) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics, such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment (IFRS 16, App. C, para. C10).

IFRS 15 – Revenue from contracts with customers

IFRS 15 has replaced all previous IFRS relating to revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). It applies to all contracts with customers unless such contracts are within the scope of application of other accounting standards. IFRS 15 requires that an entity recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard requires the Group to use judgement in considering all relevant facts and circumstances when applying each phase of the model to contracts with its customers; in addition, the standard specifies the accounting for the incremental costs of obtaining a contract with a customer and for the costs incurred to fulfil a contract with a customer.

IFRS 15, which is applicable from January 1, 2018, offers entities the option to follow a modified retrospective approach. The Group has elected to apply such modified retrospective approach and therefore not to restate comparative balances. The Group has also decided not to opt for early adoption but rather to adopt the standard with effect from January 1, 2018.

The Group has measured the impact of adopting IFRS 15 and, given the nature of its business, the impacts identified are not significant. Specifically, the application of IFRS 15 to contracts with customers where the sale of goods constituted the sole performance obligation, had no significant impact on the Group. The Group recognises revenue when control of the asset is transferred to the customer, which normally takes place on delivery as provided for in the standards previously applied. Application of the standard, therefore, had no impact on the timing of revenue recognition.

In accordance with IFRS 15, the Group estimates a variable consideration on the contract date, which it confirms when control of the asset is transferred to the customer and the right to payment is established. In view of the insignificant amount and nature of variable consideration within the current portfolio of contracts with customers, application of the new standard has had no significant impact on the Group.

IFRS 9 – Financial instruments

In July 2014, the IASB published the final version of IFRS 9 “Financial Instruments” which replaced IAS 39 “Financial Instruments – Recognition and Measurement” and all preceding versions of IFRS 9. IFRS 9 brings together all three parts of the project regarding the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

It is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. Except in the case of hedge accounting, the requirement is that the standard be applied retrospectively. The Group has adopted the standard with effect from January 1, 2018.

Application of the new classification and criteria introduced by IFRS 9 has had no significant impact on the consolidated financial position. Financial assets are classified in the various classification categories based on the applicable business model and the contractual cash flow characteristics of the financial asset. Specifically: (i) equity investments, which at December 31, 2017 and 2016 had been measured at cost in accordance with IAS 39, have since January 1, 2018 been classified as non-current financial assets measured at fair value through profit or loss; (ii) security deposits have been classified as financial assets measured at amortised cost; and (iii) securities and equity investments held for trading have been classified as current financial assets measured at fair value through profit or loss.

With regard to the impairment of financial assets, the level of impairment recognised based on the new standard is not significantly different from that recognised previously. The Group has analysed the impact of the new IFRS 9 impairment model, which is based on expected credit losses as they relate to trade and financial receivables. In the case of trade receivables, the Group has applied the simplified approach permitted by the standard, based on which expected credit losses are calculated over the lifetime of the receivables. The Group has used a matrix based on historical experience and linked to the ageing of the receivables, adjusted to take into account specific forecasts relating to individual debtors and the economic environment. There was no impact on the Group’s net assets as a result of implementing the new impairment model to trade receivables.

3 ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with relevant accounting standards and methods in certain cases requires management to make estimates and assumptions based on difficult and subjective judgments, in turn based on past experience and hypotheses considered reasonable and realistic, given the information known at the time.

Such estimates have an effect on the amounts reported in the financial statements, including the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the related notes to the financial statements. Actual results may then differ, even significantly, from those reported in the consolidated financial statements due to changes in the factors considered in determining the estimates, given the uncertainties that characterise the assumptions and conditions on which estimates are based.

The accounting estimates that more than others involve a high degree of subjectivity and judgement on the part of management, and where a change in the conditions underlying the assumptions could have a significant effect on the Group's financial results, are detailed below:

- a) Impairment of property plant and equipment and intangible assets with a finite useful life: property plant and equipment and intangible assets with a finite useful life are tested for impairment when indicators of impairment are identified that suggest the full asset value may not be recovered through use. Identification of the existence of such indicators of impairment requires management to exercise judgement based on experience and information available both within the Group and in the broader marketplace. If impairment indicators are identified, management employs what it considers to be the most appropriate measurement techniques to estimate such impairment. Both the correct identification of the indicators of impairment of tangible, intangible and right of use assets and the related estimates of the extent of such impairment depend upon factors that may change over time, thereby influencing measurements and management estimates.
- b) Impairment of intangible assets with an indefinite useful life (goodwill): Goodwill is tested for impairment annually to identify any loss in value to be recognised in the income statement. Specifically the impairment test involves allocating goodwill to the each cash generating unit and then determining the related recoverable amount, which is deemed to be the higher of its fair value and its value in use. If the recoverable amount is less than the carrying value of the CGU, an impairment loss on goodwill is allocated to it.
- c) Impairment of intangible assets with an indefinite useful life (trademarks): trademarks with an indefinite useful life are tested annually for impairment. Their value in use is determined using the discounted cash flow (DCF) method, based on the discount rate and three year forecast period included in the Group's approved budget. For the period subsequent to the three-year budget period, a growth rate equal to the expected long-term rate of inflation is assumed. Both future year forecasts and parameters determined based on currently available market information are subject to uncertainty due to unforeseeable future legal developments and potential developments in the market for pasta; it may, therefore, be necessary to recognise impairments in future years.
- d) Allowance for doubtful receivables: such allowance reflects management estimates regarding the historical and expected recoverability of such receivables.
- e) Provisions for risks and charges: identification of the existence of a current (legal or constructive) obligation is in certain cases not a simple matter. Management reviews such matters on a case by case basis, together with estimates of the outflow of resources required

to satisfy the obligation. When managers believe the likelihood of a liability occurring to be only possible, the relevant risks are disclosed in the note on risks and charges, but no provision is made.

- f) Useful economic life of property, plant and equipment and intangible assets: useful economic life is determined when the asset is first recognised in the financial statements. Considerations regarding an asset's useful life are based on historical experience, market conditions and expected future events that may affect them, such as technological changes. An asset's actual useful life may, therefore, differ from its estimated useful life.
- g) Deferred tax assets: deferred tax assets are recognised to the extent it is probable that future taxable profit will be available against which temporary differences or tax losses can be utilised.
- h) Inventories: Inventories of finished products that show signs of obsolescence or are slow moving are tested for impairment and written down in the case in which their recoverable value is lower than their book value. Such write-downs are based on management estimates and assumptions, in turn based on their experience and past results.
- i) Lease liabilities: the measurement of lease liabilities and therefore the related right of use assets depends on determination of the lease term. This is subject to management judgement and decision, in particular with regard to whether or not to include periods covered by an option to extend a lease or terminate a lease. Such decisions may be revisited if a significant event were to occur or were there to be a significant change in circumstances that impacted the likelihood of exercising an option not previously considered in determining the lease term or choosing not to exercise an option previously considered in determining the lease term.

4 MANAGEMENT OF FINANCIAL RISKS

In terms of business-related risks faced, the main risks identified, monitored and actively managed by the Group as described below, are the following:

- market risk, relating to changes in the exchange rate between the Euro and other currencies in which the Group operates and interest rates;
- credit risk, relating to the risk of default on the part of a counterpart; and
- liquidity risk, relating to a lack of financial resources to meet financial obligations.

The Group's objective is to maintain a balanced approach to managing its financial exposure by matching assets and liabilities and achieving operational flexibility through the use of liquidity generated by current operating activities and bank loans.

The Group's ability to generate liquidity from operations together with its borrowing capacity enable it to satisfy its operational requirements to fund working capital, invest and meet its financial obligations. Treasury and financial risk management are centralised within the Company. Specifically, the central finance function is responsible for evaluating and approving forecast financial requirements, monitoring trends and taking corrective action as necessary.

4.1 Market risk

Currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates to those of its business activities conducted in currencies other than the Euro. Revenues and costs denominated in other currencies may be influenced by changes in foreign exchange rates, resulting in an impact on margins (economic risk), just as trade and financial receivables and payables denominated in other currencies may be affected by the exchange rates used, resulting in an impact on results (transaction risk). Finally, exchange rate fluctuations also impact on the Group's consolidated results and equity.

The main foreign exchange rates to which the Group is exposed are:

- Euro/USD, relating to transactions entered into in US Dollars;
- Euro/GBP, relating to transactions entered into in Sterling;

The Group does not adopt any specific policies to hedge against changes in foreign exchange rates as management does not believe that such risk will have a significant negative influence on the Group's results given that incoming and outgoing cashflows in foreign currency, as well as being limited in value terms, are broadly similar in terms of volume and timing.

A hypothetical positive or negative variation of 100 bps in exchange rates relating to the currencies in which the Group operates would not have a significant impact on the net result or net assets of the periods under review.

Interest rate risk

The Group makes use of external debt resources and invests available liquidity in market instruments. Changes in interest rates influence both the cost of borrowing and returns on investments and therefore have an impact on consolidated net finance expenses. The Group's exposure to interest rate risk is monitored on an ongoing basis with respect to the Euribor yield

curve, to determine whether to intervene to mitigate the risk of an increase in market interest rates. As of the reporting dates, there were no hedging operations in place involving derivative financial instruments.

Sensitivity analysis was performed regarding interest rate risk, to determine the effects on consolidated net profit and equity of hypothetical positive and negative 50 bps variations to current effective interest rates. The analysis performed related mainly to the following items: (i) cash and cash equivalents; and (ii) short-term and medium/long-term debt. In the case of cash and cash equivalents, reference was made to the average balance and the average interest rate thereon for the year, while for short-term and medium/long-term debt the effect was calculated at the reporting date.

The following table shows the results of such analysis:

<i>(In € thousands)</i>	Impact on net profit		Impact on equity	
	- 50 bps	+ 50 bps	- 50 bps	+ 50 bps
As of December 31, 2018	(71)	71	(71)	71
As of December 31, 2017	(40)	40	(40)	40
As of December 31, 2016	(4)	4	(4)	4

4.2 Credit risk

The Group manages its exposure to the credit risk inherent in the possibility of default or worsening of creditworthiness on the part of its customers, through ongoing monitoring.

Credit risk relates mainly to the Group's commercial business activities where its counterparts are large-scale food distributors and retailers. Receivables in the latter sector are extremely fragmented, while the large-scale food distribution sector is characterised by more significant exposures to individual customers.

The Group's approach to managing credit risk associated with both types of customer is tried and tested and is based on focused and prudent management, with credit limits being granted based on information regarding customers' business and financial situation and risk as perceived by the market.

The Group operates in business sectors with low levels of credit risk, considering also the nature of its activities and the fact that its credit exposure is spread across a large number of customers. Receivables are recognised net of any impairment provisions based on the risk of customer default, also taking into account available information regarding solvency and both historical experience and forecasts.

Positions are reviewed periodically with respect to payment conditions and any overdue receivables are followed up in coordination with the sales force. Where individual receivables are deemed to be partially or wholly irrecoverable, they are written down taking into consideration the relevant expected recoverable amounts. The Group's receivables management methodology does not involve splitting credit exposure to customers into different risk categories.

With a view to mitigating risks associated with customer solvency, the Group has credit insurance policies in place with leading insurance companies.

Credit risk related to financial receivables with the banking system is limited and mainly relates to temporary liquidity, which is normally held in bank deposits and current accounts with credit institutions.

The following table provides a breakdown of trade receivables by due date, net of the allowance for doubtful receivables, as of December 31, 2018, 2017 and 2016.

<i>(In € thousands)</i>	Not due	1-90 days past due	91-180 days past due	More than 181 days past due	Total
Gross trade receivables as of December 31, 2018	39,071	12,964	983	15,550	68,568
Allowance for doubtful receivables	-	(118)	(41)	(14,540)	(14,699)
Trade receivables as of December 31, 2018	39,071	12,846	942	1,010	53,869
Gross trade receivables as of December 31, 2017	42,360	9,477	492	15,898	68,227
Allowance for doubtful receivables	-	-	(25)	(13,772)	(13,797)
Trade receivables as of December 31, 2017	42,360	9,477	467	2,126	54,430
Gross trade receivables as of December 31, 2016	38,525	5,784	126	15,826	60,261
Allowance for doubtful receivables	-	(18)	(1)	(12,899)	(12,918)
Trade receivables as of December 31, 2016	38,525	5,766	125	2,927	47,343

4.3 Liquidity risk

Liquidity risk is the risk that, owing to an inability to access new funds or sell assets, the Group is unable to meet its payment obligations, leading to a negative impact on results if it is then obliged to incur additional costs to meet its obligations or deal with insolvency.

The liquidity risk to which the Group may be subject is the inability to find adequate funds to finance its operations and develop its business and commercial activities. The two key factors that determine the Group's liquidity position are, on the one hand, cash generated or used by operating and investing activities and, on the other hand, the nature of debt maturity and renewal terms and financial investment liquidity, as well as market conditions. Specifically, the main factor affecting Group liquidity is cash used by operating activities: the business sector in which the Group operates is characterised by seasonal sales patterns with liquidity requirements reaching a peak in the third quarter of each year, due to the higher volume of trade receivables at that time with respect to other periods of the year. Management of such varying liquidity requirements is entrusted jointly to the sales and finance functions, which work together to prepare detailed sales-driven liquidity requirement plans when preparing the financial budget at the start of the year and closely monitor requirements throughout the year.

Liquidity requirements linked to movements in inventories are also analysed as these too are seasonal in nature: the forward planning of raw material purchases is based on established practices that provide for the involvement of senior management in decision-making that could have implications for the Group's financial equilibrium.

In accordance with established practice, based on prudence and the protection of stakeholder interests, the Group's financial management activities involve the negotiation of credit facilities with the banking system and ongoing monitoring of the Group's cash flows.

The Group also has in place specific cash pooling arrangements with the sole shareholder Newlat Group S.A. aimed at optimising the management of cash resources and related requirements.

As of December 31, 2018, 2017 and 2016, in addition to cash and cash equivalents and current financial assets totalling €61,790 thousand, €72,340 thousand and €51,057 thousand respectively, the Group had access to unutilised credit lines of €1,176 thousand, €2,561 thousand and €8,193 thousand.

The following table shows the Group's cash requirements, by due date, as of December 31, 2018, 2017 and 2016, based on the following assumptions:

- (i) cash flows are not discounted to present value;
- (ii) cash flows are presented in due date categories, based on the earliest due date provided for in the contract terms;
- (iii) all financial instruments held on the closing date of each financial year for which payments had already been contractually defined are included;
- (iv) where payables are not fixed (e.g. future interest payments), financial liabilities are measured at market conditions on the reporting date;
- (v) cash flows include interest to be paid by the company up to the due date of the payable, as of the reporting date.

As of December 31, 2018						
<i>(In € thousands)</i>	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years	Contractual amount	Carrying amount
Borrowings	27,251	1,805	-	-	29,056	28,941
Other non-current liabilities	-	-	-	3,121	3,121	3,121
Lease liabilities	5,481	4,458	9,549	711	20,199	19,197
Trade payables	92,221	-	-	-	92,221	92,221
Other current liabilities	13,492	-	-	-	13,492	13,492

As of December 31, 2017						
<i>(In € thousands)</i>	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years	Contractual amount	Carrying amount
Borrowings	25,873	2,789	10,805	-	39,467	39,186
Other non-current liabilities	-	1,498	-	3,121	4,619	4,619
Trade payables	91,160	-	-	-	91,160	91,160
Other current liabilities	14,381	-	-	-	14,381	14,381
Lease commitments	1,931	5,572	12,503	4,881	24,887	-

As of December 31, 2016						
<i>(In € thousands)</i>	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years	Contractual amount	Carrying amount
Borrowings	50,899	7,599	19,595	-	78,093	77,574
Other non-current liabilities	-	3,497	-	37,273	40,770	40,770
Trade payables	82,738	-	-	-	82,738	82,738
Other current liabilities	17,434	-	-	-	17,434	17,434
Lease commitments	1,062	1,096	2,836	992	5,986	-

At December 31, 2018, operating lease commitments are reflected in the lease liabilities following the application of IFRS 16 with effect from January 1, 2018.

5 CAPITAL MANAGEMENT

The Group's capital management is aimed at guaranteeing solid credit ratings and adequate capital indicators to support its investment plans, while meeting contractual obligations with lenders.

The Group ensures it has sufficient capital to finance its business development needs and meet operating requirements; to guarantee a balanced financial structure and minimise the total cost of capital, finances are sourced through a mix of risk capital and debt to the benefit of all stakeholders.

Returns on capital are monitored by reviewing market trends and business performance, net of other commitments, including borrowing costs. In order to ensure the Group's going concern status, to develop the business and to provide an adequate return on capital, management monitors the Group's debt to equity ratio on an ongoing basis and also monitors debt levels with respect to business trends and expected future cash flows in the medium/long term.

6 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY AND FAIR VALUE

Financial assets and liabilities by category

The following tables show financial assets and liabilities by category as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Carrying amount as of December 31,		
	2018	2017	2016
FINANCIAL ASSETS:			
Financial assets at amortized costs			
Financial assets at amortised cost	858	975	293
Trade receivables	53,869	54,430	47,343
Other current assets and receivables	13,593	21,347	6,224
Cash and cash equivalents	61,786	72,060	50,777
	130,106	148,812	104,637
Financial assets at fair value through profit or loss			
Non-current financial asset at fair value through profit or loss	32	32	46
Current financial asset at fair value through profit or loss	4	280	280
	36	312	326
FINANCIAL ASSETS	130,142	149,124	104,963

<i>(In € thousands)</i>	Carrying amount as of December 31,		
	2018	2017	2016
FINANCIAL LIABILITIES:			
Financial liabilities at amortized costs			
Non-current borrowings	1,778	13,478	26,912
Non-current lease liabilities	14,110	-	-
Other non-current liabilities	3,121	4,619	40,770
Trade payables	92,221	91,160	82,738
Current borrowings	27,163	25,708	50,662
Current lease liabilities	5,087	-	-
Other current liabilities	13,492	14,381	17,434
FINANCIAL LIABILITIES	156,972	149,346	218,516

As seen in the tables, most of the financial assets and liabilities at the reporting dates represented short-term positions and, in view of their nature, their carrying amounts are deemed to be reasonable approximations of their fair values.

Non-current financial assets and liabilities are settled or measured at market rates and, consequently, their fair values are deemed to be substantially in line with their carrying amounts.

Fair value

For assets and liabilities recognised in the statement of financial position, IFRS 13 requires that such values be classified according to a hierarchy of levels that reflects the significance of the inputs used in the calculation of fair value. The fair value hierarchy classifies the inputs to valuation techniques used to measure fair value as follows:

- **Level 1:** fair value is calculated with reference to quoted prices (unadjusted) in active markets for identical financial instruments. Accordingly, the emphasis within Level 1 is on determining both of the following: (a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and (b) whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.
- **Level 2:** fair value is calculated using valuation techniques based on observable inputs in active markets. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and (d) market-corroborated inputs.
- **Level 3:** fair value is calculated using valuation techniques based on unobservable market inputs.

The following table shows financial assets and liabilities at fair value, split by fair value hierarchy level, as of December 31, 2018, 2017 and 2016.

<i>(In € thousands)</i>	As of December 31, 2018		
	Level 1	Level 2	Level 3
Non-current financial asset at fair value through profit or loss	-	-	32
Current financial asset at fair value through profit or loss	-	-	4
Total financial assets at fair value	-	-	36

<i>(In € thousands)</i>	As of December 31, 2017		
	Level 1	Level 2	Level 3
Non-current financial asset at fair value through profit or loss	-	-	32
Current financial asset at fair value through profit or loss	-	-	280
Total financial assets at fair value	-	-	312

<i>(In € thousands)</i>	As of December 31, 2016		
	Level 1	Level 2	Level 3
Non-current financial asset at fair value through profit or loss	-	-	46
Current financial asset at fair value through profit or loss	-	-	280
Total financial assets at fair value	-	-	326

There were no transfers between fair value hierarchy levels during the periods under review.

7 OPERATING SEGMENTS

IFRS 8 – Operating Segments defines an operating segment as a component of an entity that:

- engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the entity’s chief operating decision maker; and
- for which discrete financial information is available.

For the purposes of IFRS 8, the Group organises and manages its business activities in terms of the following operating segments: Pasta, Milk Products, Bakery Products, Dairy Products, Special Products and Other Activities.

The following table shows details of the results and balances reviewed by the entity’s chief operating decision maker in order to assess Group performance as of and for the year ended December 31, 2018, together with a reconciliation of the items in question to the corresponding amounts in the Combined Consolidated Financial Statements.

<i>(In € thousands)</i>	At and for the year ended December 31, 2018						Total
	Pasta	Milk products	Bakery products	Dairy products	Special products	Other activities	
Revenue from contracts with customers	122,689	71,050	35,352	30,190	28,448	18,101	305,830
EBITDA (*)	8,621	4,132	4,882	3,296	2,628	669	24,228
EBITDA Margin	7%	6%	14%	11%	9%	4%	8%
Depreciation and amortization	5,377	3,738	1,246	674	2,135	391	13,561
Net impairment losses on financial assets	-	-	-	-	-	937	937
Operating profit	3,244	394	3,636	2,622	493	(659)	9,730
Total assets	100,761	20,164	13,029	9,529	20,522	72,813	236,818
Total liabilities	59,416	32,551	9,361	13,287	11,932	46,731	173,278
Investments	1,214	646	1,079	77	2,405	372	5,793
Employees (number)	463	191	132	60	145	34	1,025

(*) EBITDA is calculated as the sum of operating profit, net impairment losses on financial assets and depreciation, amortization and write-downs of non-current assets.

The following table shows details of the results and balances reviewed by the entity’s chief operating decision maker in order to assess Group performance as of and for the year ended December 31, 2017, together with a reconciliation of the items in question to the corresponding amounts in the Combined Consolidated Financial Statements.

<i>(In € thousands)</i>	At and for the year ended December 31, 2017						Total
	Pasta	Milk products	Bakery products	Dairy products	Special products	Other activities	
Revenue from contracts with customers	121,864	69,651	34,393	28,609	28,869	19,698	303,084
EBITDA (*)	6,962	3,354	4,572	1,304	2,440	885	19,517
EBITDA Margin	6%	5%	13%	5%	8%	4%	6%
Depreciation and amortization	3,803	2,372	743	344	1,568	562	9,392
Net impairment losses on financial assets	-	-	-	-	-	928	928
Operating profit	3,159	982	3,829	960	872	(605)	9,197
Total assets	70,168	29,915	11,461	8,639	18,164	103,723	242,070
Total liabilities	64,893	38,182	9,153	12,976	19,441	29,979	174,624
Investments	3,270	599	484	169	776	430	5,728
Employees (number)	468	190	132	54	151	36	1,031

(*) EBITDA is calculated as the sum of operating profit, net impairment losses on financial assets and depreciation, amortization and write-downs of non-current assets.

The following table shows details of the results and balances reviewed by the entity's chief operating decision maker in order to assess Group performance as of and for the year ended December 31, 2016, together with a reconciliation of the items in question to the corresponding amounts in the Combined Consolidated Financial Statements.

<i>(In € thousands)</i>	At and for the year ended December 31, 2016						Total
	Pasta	Milk products	Bakery products	Dairy products	Special products	Other activities	
Revenue from contracts with customers	109,676	70,662	36,447	28,128	29,315	18,016	292,244
EBITDA (*)	9,364	4,579	4,176	2,573	2,248	572	23,512
EBITDA Margin	9%	6%	11%	9%	8%	3%	8%
Depreciation and amortization	5,824	2,857	778	588	1,755	350	12,152
Net impairment losses on financial assets	-	-	-	-	-	772	772
Operating profit	3,540	1,722	3,398	1,985	493	(550)	10,588
Total assets	134,066	62,619	55,423	23,273	35,538	91,956	402,875
Total liabilities	65,494	38,436	8,396	11,536	27,213	121,590	272,665
Investments	57	1,177	1,953	98	235	520	4,040
Employees (numer)	476	189	135	53	155	35	1,043

(*) EBITDA is calculated as the sum of operating profit, net impairment losses on financial assets and depreciation, amortization and write-downs of non-current assets.

In the three-year period under review, revenue from contracts with customers in the “Pasta” and “Milk Products” segments totalled €193,739 thousand, €191,515 thousand and €180,338 thousand in 2018, 2017 and 2016 respectively, representing 63.3%, 63.2% and 61.7% respectively of revenue from contracts with customers generated in the years in question. EBITDA in the “Pasta” and “Milk Products” segments amounted to €12,753 thousand, €10,316 thousand and €13,943 thousand in 2018, 2017 and 2016 respectively, representing 52.6%, 52.8% and 59.3% respectively of total EBITDA generated. In terms of profitability, the “Bakery Products” segment had the highest EBITDA margin in each of the three years of the period under review.

Revenue generated by the “Pasta” segment increased by €825 thousand in 2018, from €121,864 thousand in the year ended December 31, 2017 to €122,689 thousand in the year ended December 31, 2018. EBITDA in the “Pasta” segment increased by €1,659 thousand, from €6,962 thousand in the year ended December 31, 2017 to €8,621 thousand in the year ended December 31, 2018. As a result, the EBITDA margin increased by 1%, from 6% in 2017 to 7% in 2018. Net of the effects of the adoption of IFRS 16, EBITDA in the Pasta segment remained broadly in line with that recorded in the prior year.

Revenue generated by the “Milk Products” segment increased by €1,399 thousand in 2018, from €69,651 thousand in the year ended December 31, 2017 to €71,050 thousand in the year ended December 31, 2018. The increase was mainly due to the increase in sales volumes of such products, as a result of the strategy initiated in the previous year of not passing on to customers the entire increase in raw material costs, with the objective of building customer loyalty. EBITDA in the “Milk Products” segment increased by €778 thousand, from €3,354 thousand in the year ended December 31, 2017 to €4,132 thousand in the year ended December 31, 2018. As a result, the EBITDA margin increased by 1%, from 5% in 2017 to 6% in 2018. Net of the effects of the adoption of IFRS 16, EBITDA in the Milk Products segment decreased slightly with respect the prior year, mainly as a result of the decrease in sales volumes, partially offset by the positive effect of the price policy and product mix during the period, as well as a slight decrease in the cost of raw materials.

Revenue generated by the “Pasta” segment increased by €12,188 thousand in 2017, from €109,676 thousand in the year ended December 31, 2016 to €121,864 thousand in the year ended December 31, 2017. The increase was mainly due to new private label orders for a significant large-scale distributor in the UK, Irish and Italian markets. EBITDA in the “Pasta” segment decreased by €2,402 thousand, from €9,364 thousand in the year ended December 31, 2016 to €6,962 thousand in the year ended December 31, 2017, mainly due to the combined effect of a reduction in sale prices applied to large scale distributors in the year ended December 31, 2017 and a reduction in sales volumes, as well as other minor production factors. Such decreases were partially offset by lower raw material costs in Germany in 2017. As a result, the EBITDA margin decreased by 3%, from 9% in 2016 to 6% in 2017.

Revenue generated by the “Milk Products” segment decreased by €1,011 thousand in 2017, from €70,662 thousand in the year ended December 31, 2016 to €69,651 thousand in the year ended December 31, 2017. EBITDA in the “Milk Products” segment decreased by €1,225 thousand, from €4,579 thousand in the year ended December 31, 2016 to €3,354 thousand in the year ended December 31, 2017. The decrease was mainly due to the combined effects of a reduction in sales volumes and higher raw material prices. Such negative effects were partially offset by the Group’s commercial strategy, which involved not increasing prices with a view to building customer loyalty, resulting in a positive effect related to the price policy and product mix during the period. As a result, the EBITDA margin decreased by 1%, from 6% in 2016 to 5% in 2017.

Details of revenues and balances by geographic area are provided below as required by IFRS 8.

The following table shows revenue from contracts with customers by geographic area for the years ended December 31, 2018, 2017 and 2016.

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Italy	163,581	156,719	146,754
Germany	89,865	91,270	90,429
Other countries	52,384	55,095	55,061
Total revenue from contracts with customers	305,830	303,084	292,244

The following table shows non-current asset balances, excluding financial assets and deferred tax assets, by geographic area for the years ended December 31, 2018, 2017 and 2016, allocated based on the country in which the assets are located.

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Italy	50,557	33,642	244,026
Germany	24,402	25,023	25,709
Total non-current assets	74,959	58,665	269,735

Finally, as required by IFRS 8, Paragraph 34, it is noted that in the years ended December 31, 2018, 2017 and 2016, one single external customer accounted for 10.1%, 10.1% and 11.1% respectively of total Group revenues.

8 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8.1 Property, plant and equipment

The following table provides a breakdown of property, plant and equipment as of December 31, 2018, 2017 and 2016, together with details of movements during the periods under review:

<i>(In € thousands)</i>	Land and buildings	Plant and machineries	Industrial and commercial equipment	Other assets	Leasehold improvements	Assets under construction and advances	Total
Cost as of January 1, 2016	256,902	108,492	4,448	4,746	-	1,546	376,134
Increase	313	2,142	153	37	-	974	3,619
Decrease	(2)	(43)	-	(2)	-	-	(47)
Reclassifications	1,164	295	7	-	-	(1,466)	-
Cost as of December 31, 2016	258,377	110,886	4,608	4,781	-	1,054	379,706
Increase	79	4,318	217	211	220	329	5,374
Real estate Reorganization	(243,952)	-	-	-	-	-	(243,952)
Decrease	-	(72)	(11)	(188)	-	-	(271)
Reclassifications	50	805	-	-	-	(855)	-
Cost as of December 31, 2017	14,554	115,937	4,814	4,804	220	528	140,857
Increase	154	4,562	212	52	154	451	5,585
Decrease	-	(98)	(3)	(112)	-	-	(213)
Reclassifications	-	320	9	-	-	(329)	-
Cost as of December 31, 2018	14,708	120,721	5,032	4,744	374	650	146,229
Accumulated depreciation as of January 1, 2016	(52,835)	(83,429)	(3,585)	(4,364)	-	-	(144,213)
Depreciation	(4,257)	(5,896)	(416)	(107)	-	-	(10,676)
Decrease	-	27	-	2	-	-	29
Impairment loss	-	(105)	-	-	-	-	(105)
Accumulated depreciation as of December 31, 2016	(57,092)	(89,403)	(4,001)	(4,469)	-	-	(154,965)
Depreciation	(2,408)	(5,225)	(275)	(105)	(6)	-	(8,019)
Real estate Reorganization	53,870	-	-	-	-	-	53,870
Decrease	-	57	11	159	-	-	227
Impairment loss	-	(105)	-	-	-	-	(105)
Accumulated depreciation as of December 31, 2017	(5,630)	(94,676)	(4,265)	(4,415)	(6)	-	(108,992)
Depreciation	(466)	(5,681)	(459)	(162)	(11)	-	(6,779)
Decrease	-	98	1	112	-	-	211
Accumulated depreciation as of December 31, 2018	(6,096)	(100,259)	(4,723)	(4,465)	(17)	-	(115,560)
Net book value as of January 1, 2016	204,067	25,063	863	382	-	1,546	231,921
Net book value as of December 31, 2016	201,285	21,483	607	312	-	1,054	224,741
Net book value as of December 31, 2017	8,924	21,261	549	389	214	528	31,865
Net book value as of December 31, 2018	8,612	20,462	309	279	357	650	30,669

The land and buildings owned by the Issuer, namely the production plants in Sansepolcro (AR), Ozzano Taro (PR), Reggio Emilia, Lodi, Lecce and Eboli (SA), as well as the Corticella plants in Bologna and Corte de' Frati (CR), were part of the Real estate Reorganization carried out during 2017 (see Note 1.2 of these Notes to the Combined Consolidated Financial Statements). The

properties in question were then leased to Newlat under specific lease contracts, which from January 1, 2018, following the application of IFRS 16, are reported as right of use assets and lease liabilities (see Note 8.3 of these Combined Consolidated Financial Statements).

Investments in property, plant and equipment during the years ended December 31, 2018, 2017 and 2016 amounted to €5,585 thousand, €5,374 thousand and €3,619 thousand respectively and mainly related to the renewal of production lines.

The net book value of property, plant and equipment disposed of during the years ended December 31, 2018, 2017 and 2016 was not materially significant.

As of December 31, 2018, 2017 and 2016 the net amount of capital grants accounted for as a reduction in the book values of the plant and machinery to which they related amounted to €1,215 thousand, €1,869 thousand and €2,523 thousand respectively. The related income for the years ended December 31, 2018, 2017 and 2016 amounted to €654 thousand, accounted for as a reduction in the depreciation of the plant and machinery in question.

During the years ended December 31, 2017 and 2016, the Group recognised impairment losses in respect of property, plant and equipment amounting to €105 thousand in each of the years. Such impairment losses related mainly to capital goods that the Group had identified as no longer being able to generate future profits.

As of December 31, 2018, 2017 and 2016 no property or capital goods were burdened by guarantees granted to third parties.

8.2 Investment property

The following table shows movements in investment property during the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Investment properties
Cost as of January 1, 2016	20,374
Increase	-
Cost as of December 31, 2016	20,374
Real estate Reorganization	(20,374)
Cost as of December 31, 2017	-
Cost as of December 31, 2018	-
Accumulated depreciation as of January 1, 2016	(2,720)
Depreciation	(238)
Accumulated depreciation as of December 31, 2016	(2,958)
Depreciation	(136)
Real estate Reorganization	3,094
Accumulated depreciation as of December 31, 2017	-
Accumulated depreciation as of December 31, 2018	-
Net book value as of January 1, 2016	17,654
Net book value as of December 31, 2016	17,416
Net book value as of December 31, 2017	-
Net book value as of December 31, 2018	-

As of December 31, 2016, the item included land and buildings relating to non-productive plants. During 2017, such investment property was included in the Real estate Reorganization (see Note 1.2 of these Notes to the Combined Consolidated Financial Statements). The book value of investment property as of December 31, 2016 approximated its fair value.

8.3 Right of use assets and lease liabilities

The following table shows movements in “Right of use assets and lease liabilities” during the year ended December 31, 2018:

<i>(In € thousands)</i>	Right of use assets
Cost as of January 1, 2018	22,480
Increase	1,612
Decrease	(32)
Cost as of December 31, 2018	24,060
Accumulated depreciation as of January 1, 2018	-
Depreciation	(5,487)
Decrease	4
Accumulated depreciation as of December 31, 2018	(5,483)
Net book value as of January 1, 2018	22,480
Net book value as of December 31, 2018	18,577

As of December 31, 2018, the Group had not identified any indicators of impairment of right of use assets.

The following table provides details of the Group’s undiscounted lease liabilities as of December 31, 2018, following application of IFRS 16 with effect from January 1, 2018:

<i>(In € thousands)</i>	As of December 31, 2018					Contractual amount	Carrying amount
	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years			
Lease liabilities	5,481	4,458	9,549	711	20,199	19,197	

The discount rate applied is based on the Group’s incremental borrowing rate (the rate of interest it would have to pay to borrow a similar sum over a similar term, with similar guarantees, to acquire an asset with value similar to that of the right-of-use in a similar economic environment). The Group has decided to apply a single discount rate to a portfolio of leases with reasonably similar characteristics, such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment.

The following table provides details of lease contracts held by the Group, mainly in the role of lessee:

<i>(In € thousands)</i>	At and for the year ended December 31, 2018
Right of use assets (buildings)	13,538
Right of use assets (equipment)	2,403
Right of use assets (vehicles)	2,636
Total right of use assets	18,577
Current lease liabilities	5,087
Non-current lease liabilities	14,110
Total lease liabilities	19,197
Depreciation right of use assets (buildings)	3,837
Depreciation right of use assets (equipment)	784
Depreciation right of use assets (vehicles)	866
Total depreciation right of use assets	5,487
Interest expenses	491
Costs for short term leases	106
Costs for low value assets	882
Variable payments not included in lease liabilities	155
Total other costs	1,143
Cash flows for lease contracts	5,767

Right of use real estate assets mainly related to the production plants in Sansepolcro (AR), Ozzano Taro (PR), Reggio Emilia, Lodi, Lecce and Eboli (SA) leased to Newlat under the lease agreements entered into with New Property and the Corticella plants in Bologna and Corte de' Frati (CR), granted under lease by Corticella. In terms of the lease term of such real estate assets, it is noted that this has been set at six years based on the termination options provided for in the contracts and management assessments. The lease agreements between the parties all have the same contractual framework, as follows: (i) a lease term of six years, renewable automatically for a further six years, with subsequent tacit renewal every six years; and (ii) early termination options that may be exercised by the lessor at the time of contract renewal and by the lessee who may terminate the contract at any time without cause with six months' notice. Based on the assessments made in accordance with the provisions of IFRS 16, management is reasonably certain that the assets will be leased for a period of six years from the date of signing the relevant contracts.

Such leases constitute related party transactions and, in this regard, reference is made to Note 10 of these Combined Consolidated Financial Statements.

Right of use assets relating to machinery mainly related to the lease of capital assets employed in the production process.

8.4 Intangible assets

The following table provides a breakdown of “Intangible assets” as of December 31, 2018, 2017 and 2016, together with details of movements during the periods under review:

<i>(In € thousands)</i>	Goodwill	Patents and intellectual property rights	Concessions, licences, trademarks and similar	Other intangible assets	Assets under construction and advances	Total
Cost as of January 1, 2016	3,863	3,083	70,589	2,875	43	80,453
Increase	-	395	22	2	2	421
Reclassifications	-	-	-	40	(40)	-
Cost as of December 31, 2016	3,863	3,478	70,611	2,917	5	80,874
Increase	-	178	43	67	66	354
Reclassifications	-	5	-	-	(5)	-
Cost as of December 31, 2017	3,863	3,661	70,654	2,984	66	81,228
Increase	-	90	39	79	-	208
Reclassifications	-	66	-	-	(66)	-
Cost as of December 31, 2018	3,863	3,817	70,693	3,063	-	81,436
Accumulated depreciation as of January 1, 2016	-	(2,846)	(46,571)	(2,746)	-	(52,163)
Amortization	-	(179)	(900)	(54)	-	(1,133)
Accumulated depreciation as of December 31, 2016	-	(3,025)	(47,471)	(2,800)	-	(53,296)
Amortization	-	(194)	(897)	(41)	-	(1,132)
Accumulated depreciation as of December 31, 2017	-	(3,219)	(48,368)	(2,841)	-	(54,428)
Amortization	-	(362)	(882)	(51)	-	(1,295)
Accumulated depreciation as of December 31, 2018	-	(3,581)	(49,250)	(2,892)	-	(55,723)
Net book value as of January 1, 2016	3,863	237	24,018	129	43	28,290
Net book value as of December 31, 2016	3,863	453	23,140	117	5	27,578
Net book value as of December 31, 2017	3,863	442	22,286	143	66	26,800
Net book value as of December 31, 2018	3,863	236	21,443	171	-	25,713

Investments in intangible assets during the years ended December 31, 2018, 2017 and 2016 amounted to €208 thousand, €354 thousand and €421 thousand respectively and mainly related to the acquisition of software.

No indicators of impairment of intangible assets were identified during the years under review.

The most significant intangible assets are described below.

Goodwill

Goodwill related to the acquisition of the dairy company Centrale del Latte di Salerno S.p.A. (hereafter “**Centrale del Latte di Salerno**”), which is identified as the sole cash generating unit (CGU). The amount represents the difference between the acquisition cost and the total equity of Centrale del Latte di Salerno as of the acquisition date, as shown below:

<i>(In € thousands)</i>	
Acquisition cost	12,701
Total equity as of December 31, 2014	8,838
GOODWILL	3,863

The measurement of the assets and liabilities of Centrale del Latte di Salerno S.p.A. was carried out during 2015 and since then no higher values have been identified to which to allocate the higher purchase price. As a result, in accordance with international accounting standards, the Board of Directors decided to allocate the excess purchase price to goodwill.

As required by IAS 36, impairment tests were performed at each reporting date to identify any evidence of impairment of goodwill. The impairment test approved by the Board of Directors on June 12, 2019 was conducted by an independent expert, comparing the book value of goodwill with the recoverable value of the related cash generating unit (CGU).

Recoverable value was considered in terms of value in use, calculated as the present value (using the DCF method) of the cash flows expected to be derived from the CGU during the 3-year period subsequent to the reporting date. The key assumptions used by management to determine forecast data for the CGU were based on estimates regarding revenue growth, EBITDA, operating cash flows, growth rate, terminal value and weighted average cost of capital (discount rate), considering both past economic performance and future expectations.

The reasonableness of profitability in the forecast period was ensured by setting it at the level achieved during financial year 2018.

The terminal value of the CGU was calculated based on an estimate of the CGU’s future cash flows (using the perpetuity growth model) and the latest available forecast data, assuming a growth rate and weighted average cost of capital (WACC), representing the weighted average of the cost of own capital and the after-tax cost of borrowing, as shown below:

<i>(In € thousands)</i>	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
Growth rate	0.5%	0.0%	0.0%
WACC	8.9%	9.6%	9.6%

For the purpose of estimating the value in use of the CGU to which goodwill is allocated:

j) reference was made to the following sources:

- a) internal sources: IAS 36 requires that estimated value in use be based on management’s most up to date expectations of results. Accordingly, the goodwill impairment test as of December 31, 2018 was based on the 2019/2021 plan for the CGU. The Company’s Board of Directors approved the test and related cash flows on June 12, 2019. For the purpose of estimating value in use, investments totalling €150 thousand per year were assumed. No operating cost improvements were

assumed and therefore profitability was assumed to remain constant throughout the period (EBITDA margin of 3.7%). EBITDA was expected to increase solely due to the increase in turnover.

- b) external sources: the goodwill impairment test as of December 31, 2018 made reference solely to external sources to determine the cost of capital. The estimated weighted average cost of capital was based on:
- the CAPM to estimate the cost of equity;
 - the (Modigliani Miller) WACC formula to estimate the (after-tax) weighted average cost of capital.

The cost of capital was calculated based on Centrale del Latte di Salerno’s current financial structure, which comprises solely equity with no financial debt.

ii) the following were assumed:

- a) an annual average increase in revenue of 4% per year from 2019 to 2021; and
- b) an EBITDA margin of 3.7% throughout the forecast period

The revenue growth assumed for the years of the explicit period is marginally higher than the expected growth of the Italian market in consideration of the good competitive positioning of the subsidiary company, but above all in consideration of (i) the expected growth strategies of the company, focused on R&D activities (including high protein milk); (ii) a guaranteed supply chain strongly connected to the territory; (iii) the development of new group products.

Based on the impairment tests performed, the estimated recoverable amount for the CGU exceeded the related book value by more than €4.7 million. Value in use was calculated based on a weighted average cost of capital (WACC) of 8.9% and a terminal growth rate (g) of 0.5%. Sensitivity analyses were also conducted to check the effects on the impairment test results of changes of $\pm 0,5\%$ and $\pm 0,25\%$ respectively in the WACC and growth rate, both considered to be significant variables. Specifically, reasonable individual changes in the major variables involved, with all other factors remaining the same, resulted in the recoverable amount of the CGU not being less than the carrying amount. To eliminate the difference between the value in use and the book value, the cost of capital (WACC) would need to increase by more than 460 basis points and the growth in cash flows considered in determining terminal value would need to be negative and lower by more than 660 basis points

Patents and intellectual property rights

The item related almost exclusively to software costs.

Concessions, licences, trademarks and similar

The following table provides a breakdown of “Concessions, licences, trademarks and similar” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Trademarks with an indefinite useful life	18,844	18,844	18,844
Trademarks with a definite useful life	2,599	3,442	4,296
Net book value	21,443	22,286	23,140

a) *Trademarks with an indefinite useful life*

This item relates solely to the Drei Glocken and Birkel trademarks recognised by Newlat Deutschland in 2014 following the acquisition of the related business of the company Ebro Foods. The value of the trademarks was tested for impairment, for the year ended December 31, 2018, with reference to the industrial plan 2019-2021. The Board of Directors approved this test on June 27, 2019.

The impairment test was carried out using the Relief-From-Royalty method. This valuation technique, in line with the doctrine and the valuation practice, consists in estimating the additional costs that would arise if the company had not the specific asset and should have to obtain it from a third party. First of all, royalty rates in line with the reference sector were taken into consideration. These rates were then applied, not only to the expected revenue generated by the trademarks over the period covered by the industrial plan, but also to a normalized flow, considering therefore a perpetual income as a terminal value, consistently with the trademarks' indefinite useful life. In line with the valuation practice, a TAB (Tax Amortization Benefit) value was also considered, representing the tax benefit associated with the deductibility of amortization related to the assets under analysis, which constitutes a further element for the determination of the value attributable to the trademarks.

The valuation of the trademarks carried out using the Relief-From-Royalty method, based on a three year forecast period reflecting assumptions regarding short and medium-term developments in the reference market. For the period subsequent to the three-year forecast period, the terminal value of the CGU was determined on a perpetual annuity basis, assuming a long-term growth rate based on the expected long-term rate of inflation and business sector characteristics.

Information regarding the forecast period used to determine value in use reflected assumptions based on past experience, as supplemented by actual developments within the Group, and verified by market data and external analyses. The most significant assumptions related to: (i) the development of future sales prices, revenue and costs; (ii) the influence of the regulatory environment in the market; (iii) planned investments and expected market share; and (iv) exchange rates and growth rates. Revenues for the first year of the explicit period were determined prudently by applying a reduction of approximately 10% compared to the historical data of the last financial year. On the other hand, for the revenue for the years 2020 and 2021, a CAGR equal to 3% was assumed, determined considering both the prospects for the pasta sector in the German market (average annual revenue increase of 2% for the sector of dry pasta between 2018 and 2021) and the leadership position held by the Birkel and Drei Glocken trademarks. It should be noted that the operating results for the first half of 2019 are approximately 5% higher than the objectives of the industrial plan for the same reference period. Any significant changes in the aforementioned assumptions would have an impact on the value in use.

The discount rates applied were based on external factors relating to the market, adjusted to reflect key risks associated with the cash generating units.

The key assumptions used in performing the impairment tests are summarised in the following table:

<i>(In € thousands)</i>	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
Discount rate	5.1%	6.3%	6.3%
Long term growth rate (expected long term inflation rate)	0.5%	1.0%	1.0%

The following table shows the assumptions used in determining the discount rate for the year ended December 31, 2018.

Component	Parameter
Risk-free rate	1.1%
Market risk premium	6.3%
Beta (levered)	0.76
Cost of equity	5.8%
Cost net of debt	2.1%
Discount rate	5.1%

In determining the value of the trademarks was also assumed:

- a growth rate (g) equal to 0.5%, which appears to be prudential with respect to the medium-long term inflation estimates for Germany, the reference market, equal to 2.2%
- a TAB, amounting to €1.7 million, determined according to the original value of the assets, assuming a reference period of 15 years starting from the impairment test date and using a tax rate of 30%.

It is specified that the percentage of value attributed to the terminal value with respect to the recoverable value of the relative CGU is equal to 81%.

As of December 31, 2018, 2017 and 2016, based on the results of the impairment tests performed, the recoverable amount of each CGU exceeded its related book value at the reporting date. In particular, with reference to the impairment test carried out for the year ended December 31, 2018, the recoverable amount of the trademarks was equal to €19.6 million and the related carrying amount was equal to €18.8 million, showing a surplus of €0.8 million.

Sensitivity analyses were also conducted to check the effects of a change in certain significant parameters on the impairment test results. As of December 31, 2018, 2017 and 2016, the recoverable amount would have been equal to the related book value if the discount rate used had been increased by 0.4% or the growth rate reduced by 0.4%.

It should be noted that no write-downs of non-current assets occurred in previous years regarding the value of the Drei Glocken and Birkel trademarks.

b) Trademarks with a finite useful life

This item relates to the trademarks owned by Newlat, which are amortised over their estimated residual lives, reflecting the periods over which it is expected they will continue to generate cash flows.

8.5 Non-current financial assets at fair value through profit or loss

As of December 31, 2018, 2017 and 2016, non-current financial assets at fair value through profit or loss amounted to €32 thousand, €32 thousand and €46 thousand respectively. Such balances, which were not materially significant, related to limited-value equity investments

8.6 Financial assets at amortised cost

As of December 31, 2018, 2017 and 2016, financial assets at amortised cost amounted to €858 thousand, €975 thousand and €293 thousand respectively. The amounts related to guarantee deposits in respect of lease contracts.

The increase in the item between December 31, 2016 and December 31, 2017 related to the guarantee deposits paid to New Property and Corticella with regard to the property lease contracts relating to the production plants.

8.7 Deferred tax assets and deferred tax liabilities

The following table provides a breakdown of “Deferred tax assets” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Provisions	2,546	3,407	3,824
Previous tax losses	394	1,181	2,071
Leases	-	-	1,248
Amortization of trademarks with a definite useful life	1,085	1,240	1,458
Others	819	653	516
Total deferred tax assets (gross value)	4,844	6,481	9,117
Set-off of deferred tax liabilities	-	(95)	(9,117)
Total deferred tax assets	4,844	6,386	-

Deferred tax assets are recognized to the extent to which it is probable that future taxable profit will be available against which they can be utilized.

As of December 31, 2018, 2017 and 2016 there were no unrecognised deferred tax assets relating to tax losses.

The following table provides a breakdown of “Deferred tax liabilities” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Intangible assets	3,850	3,850	3,850
Property, plant and equipment	-	119	29,976
Total deferred tax liabilities (gross value)	3,850	3,969	33,826
Set-off of deferred tax assets	-	(95)	(9,117)
Total deferred tax liabilities	3,850	3,874	24,709

The deferred tax liabilities in respect of intangible assets at December 31, 2018, 2017 and 2016 related to the Drei Glocken and Birkel trademarks held by Newlat Deutschland.

During 2017, the real estate properties held by the Issuer, to which the bulk of the deferred tax liabilities related, the latter being recognized in the context of the revaluations effected in transitioning to IFRS in 2014, were involved in the Real estate Reorganization (see Note 1.2 of these Notes to the Combined Consolidated Financial Statements).

The following table provides a breakdown of the gross value of deferred tax assets at December 31, 2018, 2017 and 2016, together with details of movements during the periods under review:

<i>(In € thousands)</i>	Provisions	Previous tax losses	Leasing	Amortization of trademarks with a definite useful life	Others	Total deferred tax assets
Balance as of January 1, 2016	4,382	2,349	1,327	1,689	469	10,216
Provisions (releases) in income statement	(558)	(278)	(79)	(231)	34	(1,112)
Provisions (releases) in statement of comprehensive income	-	-	-	-	13	13
Balance as of December 31, 2016	3,824	2,071	1,248	1,458	516	9,117
Provisions (releases) in income statement	(417)	(890)	-	(218)	148	(1,377)
Provisions (releases) in statement of comprehensive income	-	-	-	-	(11)	(11)
Spin-off	-	-	(1,248)	-	-	(1,248)
Balance as of December 31, 2017	3,407	1,181	-	1,240	653	6,481
Provisions (releases) in income statement	(861)	(787)	-	(155)	181	(1,622)
Provisions (releases) in statement of comprehensive income	-	-	-	-	(67)	(67)
Reclassifications	-	-	-	-	52	52
Balance as of December 31, 2018	2,546	394	-	1,085	819	4,844

The following table provides a breakdown of the gross value of deferred tax liabilities at December 31, 2018, 2017 and 2016, together with details of movements during the periods under review:

<i>(In € thousands)</i>	Intangible assets	Property, plant and equipment	Total deferred tax liabilities
Balance as of January 1, 2016	3,850	31,935	35,785
Provisions (releases) in income statement	-	(1,959)	(1,959)
Provisions (releases) in statement of comprehensive income	-	-	-
Balance as of December 31, 2016	3,850	29,976	33,826
Provisions (releases) in income statement	-	224	224
Provisions (releases) in statement of comprehensive income	-	-	-
Spin-off	-	(30,081)	(30,081)
Balance as of December 31, 2017	3,850	119	3,969
Provisions (releases) in income statement	-	(171)	(171)
Provisions (releases) in statement of comprehensive income	-	-	-
Reclassifications	-	52	52
Balance as of December 31, 2018	3,850	-	3,850

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amount of an asset or a liability in the consolidated financial statements and its tax base.

8.8 Inventories

The following table provides a breakdown of “Inventories” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Raw materials	14,479	13,153	12,269
Finished goods	10,759	12,583	13,114
Work in progress	14	-	-
Advances	34	34	34
Total inventories (gross value)	25,286	25,770	25,417
Inventory impairment provision	(35)	(35)	(35)
Total inventories	25,251	25,735	25,382

Inventories are stated net of an inventory impairment provision, amounting to €35 thousand as of December 31, 2018, 2017 and 2016. The net write-downs recognised to the income statement were zero in 2018 and 2017 and €28 thousand in the year ended December 31, 2016.

8.9 Trade receivables

The following table provides a breakdown of “Trade receivables” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Trade receivables from customers	68,549	68,208	60,242
Trade receivables from related parties	19	19	19
Trade receivables (gross value)	68,568	68,227	60,261
Allowance for doubtful receivables	(14,699)	(13,797)	(12,918)
Total trade receivables	53,869	54,430	47,343

Movements in the allowance for doubtful receivables during the years ended December 31, 2018, 2017 and 2016 are shown in the following table:

<i>(In € thousands)</i>	Allowance for doubtful receivables
Balance as of January 1, 2016	12,323
Provisions	780
Uses	(176)
Releases	(9)
Balance as of December 31, 2016	12,918
Provisions	928
Uses	(49)
Releases	-
Balance as of December 31, 2017	13,797
Provisions	937
Uses	(35)
Releases	-
Balance as of December 31, 2018	14,699

The net value of overdue trade receivables as of December 31, 2018, 2017 and 2016 was €14,798 thousand, €12,070 thousand and €8,818 thousand respectively.

An analysis of credit risk, including details of the extent to which overdue receivables by due date are covered by the allowance for doubtful receivables, is provided in Note 4 “Management of financial risks”.

Details of trade receivables due from related parties are provided in Note 10 “Related party transactions”.

The carrying value of trade receivables is considered to be a good approximation of the related fair value.

8.10 Income tax receivables and payables

Income tax receivables amounted to €775 thousand, €1,179 thousand and €1,656 thousand at December 31, 2018, 2017 and 2016 respectively.

Income tax payables amounted to €410 thousand, €1,437 thousand and €748 thousand at December 31, 2018, 2017 and 2016 respectively.

Movements in net income tax balances in the years ended December 31, 2018, 2017 and 2016 were mainly due to charges of income tax expenses for the year amounting to €1,577 thousand, €1,586 thousand and €2,177 thousand and payments amounting to €2,200 thousand, €420 thousand and €2,813 thousand.

8.11 Other current assets and receivables

The following table provides a breakdown of “Other current assets and receivables” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Receivables from New Property	10,000	18,192	-
Tax receivables not related to income taxes	2,412	1,805	1,316
Receivables from social security institutes	768	803	895
Accrued and deferred income	305	311	213
Prepayments	542	670	926
Other receivables	413	547	1,013
Total other current assets and receivables	4,440	4,136	7,363

The receivables from New Property as of December 31, 2018 and 2017 related to the residual balance due in respect of the New Property Spin-off (see Note 1.2 of these Notes to the Combined Consolidated Financial Statements).

Receivables from social security institutes as of December 31, 2018, 2017 and 2016, for the main part related to sums due from INAIL amounting to €706 thousand, €729 thousand and €701 thousand respectively.

Prepayments as of December 31, 2018, 2017 and 2016 mainly related to payments on account to suppliers for goods and services not yet received, amounting to €355 thousand, €382 thousand and €651 thousand respectively.

Tax receivables not related to income taxes as of December 31, 2018, 2017 and 2016 mainly included VAT receivables amounting to €1,645 thousand, €1,270 thousand and €1,082 thousand respectively.

8.12 Current financial assets at fair value through profit or loss

The following table provides a breakdown of “Current financial assets at fair value through profit or loss” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Fixed rate bonds (BMPS)	-	276	276
Unlisted shares	4	4	4
Total current financial assets at fair value through profit or loss	4	280	280

The item included limited-value equity investments and bonds held for trading.

8.13 Cash and cash equivalents

The following table provides a breakdown of “Cash and cash equivalents” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Cash pooling accounts	61,429	71,621	50,076
Post office and bank accounts	318	250	543
Cheques and cash	39	189	158
Total cash and cash equivalents	61,786	72,060	50,777

Cash and cash equivalents related to current account deposits with leading bank and financial institutions.

As of December 31, 2018, 2017 and 2016, cash and cash equivalents were not subject to any constraints or restrictions.

For details regarding movements in “Cash and cash equivalents”, reference is made to the statement of cash flows.

Centralised treasury bank deposits related to the current accounts used by the cash pooling system in place with Newlat Group S.A.. The debit balances at December 31, 2018 on the Newlat current accounts associated with two of the four centralised treasury agreements in place with the controlling entity Newlat Group S.A. are included among current financial liabilities (see Note 8.17 “Current and non-current financial liabilities” of these Notes to the Combined Consolidated Financial Statements).

Centralised treasury arrangements in place at the respective reporting dates are described below.

Centralised treasury arrangements between Newlat and Newlat Group S.A. and between Centrale del Latte di Salerno and Newlat Group S.A.

During 2010, Newlat Group S.A.(hereafter the “**Pool Leader**”) entered into three separate agreements with Unicredit Corporate Banking S.p.A. and a further agreement with Monte dei Paschi di Siena (at the time Banca Antonveneta S.p.A.), with the objective of establishing centralized treasury arrangements with Newlat. During 2015, Newlat Group S.A. also entered into an agreement with Unicredit Corporate Banking S.p.A. with a view to establishing centralized treasury arrangements with Centrale del Latte di Salerno.

Based on such agreements, all transactions and movements on each of the current accounts held by Newlat and Centrale del Latte di Salerno, as identified in each agreement, flow through the

current accounts held in the name of the Pool Leader identified in each agreement (hereafter the “**Master Accounts**”), in such a way that the end of day balances on the Newlat and Centrale del Latte di Salerno accounts are transferred to the Master Accounts, with the respective transaction value dates, and therefore zeroed daily.

The reciprocal debtor and creditor positions of the subsidiaries and the Pool Leader are represented by the end of day balances (reflecting all movements) on the accounts of the subsidiaries, which are then transferred to the Master Accounts. Positive end of day balances on subsidiary bank accounts are transferred to the Master Accounts, while in the case of negative balances, the Pool Leader credits a sum of an equal amount to the bank account of the subsidiary in question. As a result of such respective debits and credits, the bank balances of Newlat and Centrale del Latte di Salerno are almost always equal to zero.

In accordance with the relevant agreements, Newlat and Centrale del Latte di Salerno have access to credit facilities granted by their respective banks, based on guarantees provided by the Pool Leader. In the absence of such guarantees, the companies can still access credit lines with the Pool Leader taking on the role of broker for a specific commission.

Interest income and expense in respect of such centralized treasury arrangement are calculated at 3M Euribor plus a spread of 3%.

Centralised treasury arrangements between Newlat Deutschland and Newlat Group S.A.

These arrangements, based on the agreement entered into by Newlat Group S.A. (hereafter the “**Pool Leader**”) and Unicredit Corporate Banking S.p.A. on December 31, 2017 with the objective of establishing centralized treasury arrangements with Newlat Deutschland, stipulate that all transactions and movements on the current accounts held by Newlat Deutschland flow through the current account held in the name of the Pool Leader (hereafter the “**Master Account**”), in such a way that the end of day the balance on the Newlat Deutschland account is transferred to the Master Account, with the respective transaction value dates, and therefore zeroed daily.

The reciprocal debtor and creditor positions of the subsidiary and the Pool Leader are represented by the end of day balances (reflecting all movements) on the accounts of the subsidiary, which are then transferred to the Master Account. Positive end of day balances on subsidiary bank accounts are transferred to the Master Account, while in the case of negative balances, the Pool Leader credits a sum of an equal amount to the bank account of the subsidiary. As a result of such respective debits and credits, the bank balances of Newlat Deutschland are almost always equal to zero.

Interest income in respect of such centralized treasury arrangements is calculated at 3M Euribor plus a spread of 1%, while interest expense is calculated at 3M Euribor plus a spread of 3%.

8.14 Total equity

“Total equity” at December 31, 2018, 2017 and 2016 amounted to €63,540 thousand, €67,446 thousand and €130,210 thousand respectively. The consolidated statement of changes in equity is presented above, in the related section.

Changes in equity in the year ended December 31, 2018 related to:

- the distribution of €10,000 thousand to the shareholder Newlat Group S.A., representing advance payment in respect of the consideration due for the acquisition of Newlat Deutschland, recognised, given the inclusion in the Combined Consolidated Financial

Statements of the company's accounting balances as of January 1, 2016, in accordance with the accounting treatment required for business combinations under common control;

- recognition of total comprehensive income for the year amounting to €6,094 thousand.

Changes in equity in the year ended December 31, 2017 related to:

- the negative impact of the Real estate Reorganization, amounting to €63,467 thousand (see Note 1.2 of these Notes to the Combined Consolidated Financial Statements);
- the distribution of €539 thousand to the shareholder Newlat Group S.A., representing payment of the consideration due for the acquisition of the Corticella Business Unit, recognised, given the inclusion in the Combined Consolidated Financial Statements of the accounting balances relating to the business unit as of January 1, 2016, in accordance with the accounting treatment required for business combinations under common control;
- the distribution of dividends amounting to €3,000 thousand to the sole shareholder Newlat Group S.A., as approved by the Issuer's ordinary shareholders' meeting of June 28, 2017;
- recognition of total comprehensive income for the year amounting to €4,242 thousand.

Changes in equity in the year ended December 31, 2016 related solely to recognition of total comprehensive income for the year amounting to €6,725 thousand.

Share capital

As of December 31, 2018, the Company's fully paid up share capital amounted to €27,000 thousand and comprised 540,000 ordinary shares with a nominal value of €50 per share.

Statutory reserve

As of December 31, 2018, 2017 and 2016 the statutory reserve amounted to €1,712 thousand, €1,590 thousand and €1,381 thousand respectively.

8.15 Employee benefit obligations

The following table provides a breakdown of “Employee benefit obligations” as of December 31, 2018, 2017 and 2016, together with details of movements during the periods under review:

<i>(In € thousands)</i>	Employee benefit obligations (Italian companies)	Employee benefit obligations Newlat Deutschland	Total employee benefit obligations
Balance as of January 1, 2016	10,942	417	11,359
Current service costs	50	9	59
Finance costs	111	10	121
Actuarial (gains)/losses	55	19	74
Benefit paid	(402)	(7)	(409)
Balance as of December 31, 2016	10,756	448	11,204
Current service costs	69	9	78
Finance costs	96	9	105
Actuarial (gains)/losses	233	6	239
Benefit paid	(305)	(7)	(312)
Balance as of December 31, 2017	10,849	465	11,314
Current service costs	70	12	82
Finance costs	139	6	145
Actuarial (gains)/losses	(201)	(8)	(209)
Benefit paid	(287)	(7)	(294)
Balance as of December 31, 2018	10,570	468	11,038

Employee benefit obligations represent the estimated obligation, calculated based on actuarial techniques, of the amount to be paid to employees on termination of their employment contract.

Employee severance indemnity (T.F.R.)

The value of the employee severance indemnity relating to Newlat and Centrale del Latte di Salerno, which meets the defined benefit plan criteria defined by IAS 19, is calculated on an actuarial basis. The actuarial, financial and demographic assumptions adopted in determining the liability as of December 31, 2018, 2017 and 2016 in accordance with IAS 19 are described below:

	As of December 31,		
	2018	2017	2016
Financial assumptions			
Discount rate	1.30%	1.30%	0.91%
Inflation rate	1.50%	1.50%	0.80%
Expected rate of wage and salary increases	1.50%	1.50%	na
Demographic assumptions			
Mortality	SIM/SIF2002 ISTAT table.	SIM/SIF2002 ISTAT table.	SIM/SIF2002 ISTAT table.
Retirement	Achieving of the first retirement requirement according to the regulations in force	Achieving of the first retirement requirement according to the regulations in force	Achieving of the first retirement requirement according to the regulations in force

The following table shows the main assumptions adopted in respect of annual turnover and frequency of advance TFR payments for each company in calculating the employee benefit obligations for Newlat and Centrale del Latte di Salerno in accordance with IAS 19.

Annual frequency of turnover and employees' leaving indemnities	As of December 31,					
	2018		2017		2016	
	Newlat Food	Centrale del Latte di Salerno	Newlat Food	Centrale del Latte di Salerno	Newlat Food	Centrale del Latte di Salerno
Frequency of advances in employees' leaving indemnities	3.50%	3.50%	3.00%	7.60%	5.00%	5.00%
Frequency of turnover	0.40%	0.40%	3.80%	0.00%	3.00%	3.00%

The following table shows the results of sensitivity analyses performed for each actuarial, financial and demographic assumption as of December 31, 2018, 2017 and 2016, highlighting the effects (in absolute terms) that would have occurred upon reasonable possible changes in such assumptions:

<i>(In € thousands)</i>	Discount rate		Inflation rate		Expected rate of wage and salary increases		Retirement	
	+0,50%	- 0,50%	+0,50 %	- 0,50%	+0,50%	-0,50%	+ 1 year	- 1 year
	Employee benefit obligations as of December 31, 2018	(610)	665	402	(395)	10	(10)	37
Employee benefit obligations as of December 31, 2017	(537)	580	352	(346)	13	(13)	41	(44)
Employee benefit obligations as of December 31, 2016	n.d.	447	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.

Newlat Deutschland pension plan

The following table shows the main actuarial, financial and demographic assumptions adopted in accordance with IAS 19, in determining the Newlat Deutschland employee pension plan liability as of December 31, 2018, 2017 and 2016:

	As of December 31,		
	2018	2017	2016
Discount rate	2.02%	1.93%	1.95% - 2.42%
Expected rate of pension increases	1.70%	1.70%	1.70%

8.16 Provisions for risks and charges

The following table provides a breakdown of “Provisions for risks and charges” as of December 31, 2018, 2017 and 2016, together with details of movements during the periods under review:

<i>(In € thousands)</i>	Agents leaving indemnities	Legal claims, litigations and other	Ozzano Taro risk provision	Total provisions for risks and charges
Balance as of January 1, 2016	698	40	25,656	26,394
Additional provisions recognised in profit or loss during the year	118	29	-	147
Amounts used during the year	(18)	-	-	(18)
Unused amounts reversed in profit or loss during the year	-	-	(9,035)	(9,035)
Balance as of December 31, 2016	798	69	16,621	17,488
Additional provisions recognised in profit or loss during the year	118	-	-	118
Amounts used during the year	(25)	-	-	(25)
Unused amounts reversed in profit or loss during the year	-	-	(8,928)	(8,928)
Balance as of December 31, 2017	891	69	7,693	8,653
Additional provisions recognised in profit or loss during the year	150	-	-	150
Amounts used during the year	-	-	-	-
Unused amounts reversed in profit or loss during the year	(102)	-	(7,693)	(7,795)
Balance as of December 31, 2018	939	69	-	1,008

The Ozzano Taro risk provision relates to net future costs linked to the co-packing contract entered into with Heinz Italia S.p.A. on acquisition of the plant at the end of October 2015 contracted to expire in 2018. The contract is measured as an onerous contract as defined in IAS 37 and, accordingly, the net future costs prudently estimated by the Group on the acquisition date were recognised in a dedicated provision.

The agents leaving indemnities represents a reasonable forecast of the costs that would be incurred by the company in the event that agent relations were interrupted.

8.17 Current and non-current borrowings

The following table provides a breakdown of “Current and non-current borrowings” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31, 2018		As of December 31, 2017		As of December 31, 2016	
	Current	Non- current	Current	Non- current	Current	Non- current
Newlat Group SA Loan (Newlat Food SpA)	-	-	-	9,000	-	15,000
Liabilities to Newlat Group SA for cash pooling	-	-	-	-	27,705	-
Total financial liabilities to Newlat Group SA	-	-	-	9,000	27,705	15,000
Unicredit mortgage agreement (Newlat Food SpA)	1,644	1,691	1,599	3,335	1,555	4,933
Unicredit mortgage agreement (Newlat Deutschland)	1,057	87	1,025	1,143	997	2,169
Unicredit loan (ex IAR)	-	-	-	-	2,468	4,724
FINMOLISE loan (ex IAR)	-	-	-	-	42	86
Unicredit mortgage (ex IAR)	-	-	-	-	449	-
Bank advances on invoices	24,324	-	22,939	-	17,307	-
Credit lines and bank accounts	138	-	145	-	139	-
Total financial liabilities to banks	27,163	1,778	25,708	4,478	22,957	11,912
Total borrowings	27,163	1,778	25,708	13,478	50,662	26,912

The following table provides a breakdown, by expiry date, of borrowings as of December 31, 2018:

<i>(In migliaia di Euro)</i>	Book value as of December 31, 2018	Due date	
		Year 2019	Year 2020
Unicredit loan (Newlat Food SpA)	3,335	1,644	1,691
Unicredit loan (Newlat Deutschland)	1,144	1,057	87
Bank advances on invoices	24,324	24,324	-
Credit lines and bank accounts	138	138	-
Total borrowings	28,941	27,163	1,778

The key items comprising the Group's borrowings as of December 31, 2018 are described below.

a) *Outstanding borrowings as of December 31, 2018*

Unicredit mortgage agreement (Newlat Food S.p.A)

On December 29, 2014, Newlat entered into a mortgage agreement with Unicredit S.p.A for an amount of €8,000 thousand, to be used for the acquisition of the entire share capital of Centrale del Latte di Salerno.

The loan is due to expire on December 31, 2020 and the loan agreement provides for the payment of 12 monthly interest-only instalments (from January 31, 2015 to December 31, 2015) and 60 deferred monthly capital repayment instalments, from January 31, 2016 to December 31, 2020.

A rate of interest of 2.8% was applied up to 31 March 2015. Subsequently, the rate of interest applied has been equal to 3M Euribor plus a spread of 2.7%.

The mortgage agreement provides for early reimbursement on the part of Newlat on condition that: (i) all arrears and other sums due for whatever reason have been settled; and (ii) a fee of 2% of the capital sum reimbursed in advance is paid.

The mortgage agreement does not require compliance with any financial covenants.

The mortgage agreement provides for a lien on Newlat's entire shareholding in Centrale del Latte di Salerno.

Unicredit mortgage agreement (Newlat Deutschland)

On January 5, 2015, Newlat Deutschland entered into a mortgage agreement with Unicredit S.p.A for an amount of €5,000 thousand.

The loan agreement provides for reimbursement through 60 deferred monthly instalments and expiry on January 31, 2020.

The mortgage agreement does not require compliance with any financial covenants.

b) Borrowings no longer outstanding as of December 31, 2018

Loans from Newlat Group S.A.

Loans granted by Newlat Group S.A. included:

- a loan agreement for a total amount of €25,000 thousand, entered into on May 15, 2017 between Newlat Group S.A. e Newlat S.p.A. The agreement provided for the payment of quarterly interest at Euribor plus a spread of 2.5% and the reimbursement of capital in a single or multiple instalments during the period up to and no later than December 31, 2020. It is noted that the payable relating to such loan was transferred as part of the New Property Spin-off during 2017;
- a loan agreement entered into with Newlat Group S.A. on May 22, 2017, for a total amount of €9,000 thousand. The agreement provided for the payment of quarterly interest at Euribor plus a spread of 2.5% and the reimbursement of capital in a single or multiple instalments during the period up to and no later than December 31, 2020. On December 28, 2018, Newlat reimbursed the entire amount outstanding on the loan.
- a loan agreement for a total amount of €15,000 thousand, entered into on December 27, 2016 between Newlat Group S.A. e Newlat. The agreement provided for the payment of quarterly interest at Euribor plus a spread of 2.5% and the reimbursement of capital in a single or multiple instalments during the period up to and no later than December 31, 2020. It is noted that the payable relating to such loan was transferred as a result of the New Property Spin-off during 2017.

Unicredit loan agreement (ex IAR)

This item related to a loan agreement originally entered into in 2008 between the company Industrie Alimentari Riunite S.p.A (IAR), now merged into Newlat, and Unicredit Corporate Banking, for a total amount of €21,000 thousand.

The loan was due to expire on September 30, 2019 and the loan agreement provided for the payment of 4 quarterly interest-only instalments (from December 31, 2008 to September 30, 2009) and 40 deferred quarterly capital repayment instalments, from December 31, 2009 to September 30, 2019.

It is noted that the payable relating to such loan was transferred as part of the New Property Spin-off during 2017.

FINMOLISE loan agreement (ex IAR)

This item related to a subsidised rate loan agreement originally entered into between the company Industrie Alimentari Riunite S.p.A (IAR), now merged into Newlat, and Finmolise S.p.A, for a total amount of €568 thousand.

The loan was due to expire on January 1, 2020 and the loan agreement provided for the payment of 11 half-yearly interest-only instalments (from January 1, 2000 to January 1, 2005) and 30 deferred half-yearly capital repayment instalments, from 1 July 2005 to January 1, 2020.

It is noted that the payable relating to such loan was transferred as part of the New Property Spin-off during 2017.

c) Liabilities due to Newlat Group S.A. for cash pooling

This item related to the debit balances as of December 31, 2016 on the Newlat current accounts associated with two of the four centralised treasury agreements in place with the controlling entity Newlat Group S.A.. The credit balances at the same date on the Newlat current accounts associated with the other two of the four centralised treasury agreements in place with the controlling entity Newlat Group S.A. are included among cash and cash equivalents. For details of such centralised treasury arrangements, see Note 8.13 “Cash and cash equivalents” of these Notes to the Combined Consolidated Financial Statements.

d) Payables relating to bank advances on invoices

This item related solely to amounts due to credit institutions in relation to invoice discounting activities.

In accordance with IAS 7, the following table shows changes in financial liabilities, including both those arising from cash flows generated and/or used by financing activities as well as those arising from non-cash changes.

<i>(In € thousands)</i>	As of December 31, 2017	Proceeds	Repayments	Reclassifications	As of December 31, 2018
Non-current borrowings	13,478	-	(9,000)	(2,700)	1,778
Current borrowings	25,708	-	(1,245)	2,700	27,163
Total borrowings	39,186	-	(10,245)	-	28,941

<i>(In € thousands)</i>	As of December 31, 2016	Proceeds	Repayments	Reclassifications	Spin-off	As of December 31, 2017
Non-current borrowings	26,912	34,000	-	(510)	(46,924)	13,478
Current borrowings	50,662	-	(25,464)	510	-	25,708
Total borrowings	77,574	34,000	(25,464)	-	(46,924)	39,186

<i>(In € thousands)</i>	As of January 1, 2016	Proceeds	Repayments	Reclassifications	As of December 31, 2016
Non-current borrowings	17,421	15,000	-	(5,509)	26,912
Current borrowings	124,687	-	(79,534)	5,509	50,662
Total borrowings	142,108	15,000	(79,534)	-	77,574

8.18 Other non-current liabilities

The following table provides a breakdown of “Other non-current liabilities” as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Payables due to Corticella	-	-	17,002
Payable for building right to purchase	-	-	8,000
Payables due to Newlat Group S.A.	-	-	9,150
Payables for acquisition of businesses	3,121	4,619	6,618
Total other non-current liabilities	3,121	4,619	40,770

Payables for the acquisition of businesses during the periods under review related to the non-current portion of the payable due by Newlat Deutschland for the acquisition of the Ebro Foods SA business, including the Drei Glocken and Birkel trademarks.

The payable due to Corticella at December 31, 2016, amounting to €17,002 thousand, related to the amount due in respect of the contractually agreed consideration for the option to purchase the real estate holdings, which was waived in favour of Newlat Group S.A..

The payable due to Newlat Group S.A. at December 31, 2016, amounting to €9,150 thousand, related to the amount due in respect Newlat's acquisition in 2014 of IAR S.p.A., which was previously owned by the controlling entity.

The payable for building right to purchase of €8,000 thousand as of December 31, 2016 related to the residual amount due to acquire the plant located in Reggio Emilia.

8.19 Trade payables

The following table provides a breakdown of "Trade payables" as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Trade payables to suppliers	92,026	90,432	81,611
Trade payables to related parties	195	728	1,127
Total trade payables	92,221	91,160	82,738

The item mainly includes payables relating to the Group's normal business activities.

Details of trade payables due to related parties are provided in Note 10 "Related party transactions".

The carrying value of trade payables is considered to be a good approximation of the related fair value.

8.20 Other current liabilities

The following table provides a breakdown of "Other current liabilities" as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Payables to employees	5,980	5,656	5,799
Payables due to social security institutes	2,642	2,621	2,730
Payables for acquisition of businesses	1,902	2,402	2,402
Tax payables not related to income taxes	1,570	2,105	3,100
Accrual and deferred income	699	815	220
Payable for building right to purchase	-	-	2,500
Others	699	782	683
Total other current liabilities	13,492	14,381	17,434

Payables due to employees mainly related to wages and salaries to be paid as well as deferred costs, including costs relating to vacations, leave and additional months' pay.

Payables due to social security institutes mainly related to contributions due to INPS and other social security institutes.

Payables for the acquisition of businesses related to the current portion of the payable due by Newlat Deutschland for the acquisition of the Ebro Foods SA business, including the Drei Glocken and Birkel trademarks.

Tax payables not related to income taxes at December 31, 2018, 2017 and 2016 mainly related to the amounts of €1,320 thousand, €1,289 thousand and €1,255 thousand respectively due to the tax authorities in respect of withholding tax.

The payable for building right to purchase of €2,500 thousand as of December 31, 2016 related to the residual amount due to acquire the plant located in Reggio Emilia.

9 NOTES TO THE CONSOLIDATED INCOME STATEMENT

9.1 Revenue from contracts with customers

The following table provides a breakdown of “Revenue from contracts with customers” by operating segment for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Pasta	122,689	121,864	109,676
Milk products	71,050	69,651	70,662
Bakery products	35,352	34,393	36,447
Dairy products	30,190	28,609	28,128
Special products	28,448	28,869	29,315
Other activities	18,101	19,698	18,016
Total revenue from contracts with customers	305,830	303,084	292,244

The following table provides a breakdown of “Revenue from contracts with customers” by distribution channel for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Large food retailers	191,021	184,868	171,588
B2B partners	38,770	41,720	40,304
Normal trade	35,208	37,108	35,033
Private label	32,627	31,872	37,840
Food service	8,204	7,516	7,479
Total revenue from contracts with customers	305,830	303,084	292,244

The following table provides a breakdown of “Revenue from contracts with customers” by geographical area for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Italy	163,581	156,719	146,754
Germany	89,865	91,270	90,429
Other countries	52,384	55,095	55,061
Total revenue from contracts with customers	305,830	303,084	292,244

Operating segment disclosure is provided in Note 7 of these Combined Consolidated Financial Statements.

Revenue from contracts with customers during the year ended December 31, 2018 related almost exclusively to the sale of goods. Revenue in respect of such sales is recognised when control of the relevant assets is transferred to the customer.

In accordance with IAS 18, revenue from contracts with customers during the years ended December 31, 2017 and 2016 was recognised when the significant risks and rewards of ownership of the goods sold was transferred to the customer.

9.2 Operating costs

The following table provides a breakdown of operating costs, classified by destination, for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Cost of sales of goods	256,060	255,115	241,299
Sales and distribution costs	27,864	26,488	27,013
Administrative expenses	12,663	12,873	13,241
Total operating costs	296,587	294,476	281,553

The following table provides a breakdown of the same operating costs, by nature of cost, for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Purchase and consumption of raw materials and finished goods (net of changes in inventories)	154,626	154,603	139,707
Personnel expenses	49,235	49,997	50,398
Packaging materials	25,742	23,500	23,698
Freight	20,154	19,351	17,659
Utilities	13,682	13,952	14,284
Depreciation, amortization and write-downs of non-current assets	13,561	9,392	12,152
Sales commissions	4,903	5,194	4,842
Porterage and warehousing	4,349	4,198	4,215
Security and cleaning expenses	3,463	3,491	3,195
Maintenance and repairs	3,314	4,065	5,110
Royalties	1,713	1,719	1,772
Rentals	1,406	5,400	3,812
Advertising and promotions	1,110	311	1,183
Consulting services	886	888	1,096
Insurance	813	849	842
Laboratory analysis	741	704	583
Services related to production plants	414	524	439
Fees to Chairman and Directors	114	113	73
Auditing services	105	105	112
Fees to Statutory Auditors	33	33	36
Release of Ozzano Taro provisions for risks and charges	(7,795)	(8,928)	(9,035)
Other expenses	4,018	5,015	5,380
Total operating costs	296,587	294,476	281,553

Operating costs for the year ended December 31, 2018 increased by €2,111 thousand with respect to the previous year, from €294,476 thousand in the year ended December 31, 2017 to €296,587 thousand in the year ended December 31, 2018. The significant reduction in rentals and related increase in depreciation in the year ended December 31, 2018 were due to the application of IFRS 16 with effect from January 1, 2018.

Operating costs for the year ended December 31, 2017 increased by €12,923 thousand with respect to the previous year, from €281,553 thousand in the year ended December 31, 2016 to €294,476 thousand in the year ended December 31, 2017, mainly due to higher raw material and finished product costs. The increase in rentals and related decrease in depreciation in the year ended December 31, 2017 were due to the effects of the Real estate Reorganization.

9.3 Net impairment losses on financial assets

“Net impairment losses on financial assets”, amounting to €937 thousand, €928 thousand and €772 thousand in the years ended December 31, 2018, 2017 and 2016 respectively related to the impairment of trade receivables. A detailed breakdown of movements in the allowance for doubtful receivables for the years ended December 31, 2018, 2017 and 2016 is included above in Note 8.9 – “Trade receivables”.

9.4 Other income

The following table provides a breakdown of “Other income” for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Reimbursements	1,600	2,138	2,500
Advertising income	162	295	459
Research and development tax credit	295	485	-
Rental income	242	263	312
Other income related to Ozzano plant	454	313	448
Capital gains on disposal of assets	74	33	-
Other	1,750	1,389	1,740
Total other income	4,577	4,916	5,459

9.5 Other operating costs

The following table provides a breakdown of “Other operating costs” for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Property tax and other taxes	1,047	1,245	1,915
Company canteen	221	198	185
Reimbursements	139	77	431
Charities and membership fees	131	71	73
Capital losses on disposal of assets	3	11	6
Other	1,612	1,797	2,180
Total other operating costs	3,153	3,399	4,790

9.6 Finance income and costs

The following table provides a breakdown of “Finance income” for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Interest income from cash pooling	1,232	874	1,568
Net exchange gain on foreign currency items	81	-	-
Other finance income	14	12	11
Total finance income	1,327	886	1,579

Interest income from cash pooling relates to the Group’s cash pooling arrangements with the sole shareholder Newlat Group S.A.. For further details, see Note 8.13 – “Cash and cash equivalents”.

The following table provides a breakdown of “Finance costs” for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Interest expenses on loans	811	1,060	1,243
Interest expenses on lease liabilities	492	-	-
Interest expenses due to Newlat Group S.A.	470	834	2,083
Fees	146	158	89
Net exchange losses on foreign currency items	-	124	239
Net interest expenses on employee benefit obligations	145	105	121
Other finance costs	13	122	276
Total finance costs	2,077	2,403	4,051

In addition to interest on bank loans, interest expenses on loans also relates to interest on financial liabilities related to invoice discounting activities.

9.7 Income taxes

The following table provides a breakdown of “Income taxes” for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Current tax on profits for the year	1,717	1,622	2,452
Adjustments for current tax of prior years	(140)	(35)	(275)
Total current tax on profits for the year	1,577	1,587	2,177
Decrease/(increase) in deferred tax assets	1,622	1,377	1,112
(Decrease)/increase in deferred tax liabilities	(171)	224	(1,959)
Total deferred tax expense/(benefit)	1,451	1,601	(847)
Total income tax expense	3,028	3,188	1,330

The following table shows the reconciliation between the theoretical tax charge and the reported tax expense for the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Year ended December 31,		
	2018	2017	2016
Profit before income tax	8,980	7,680	8,116
Theoretical tax rate	27.9%	27.9%	31.4%
Theoretical income tax expense	2,505	2,143	2,548
Adjustments:			
Differences between theoretical tax rate and local tax rates	112	102	(28)
Tax of prior years	(140)	(35)	(275)
Impact on deferred tax due to changes in tax rate	-	648	(1,518)
Not deductible costs	52	27	88
Other	499	303	515
Total income tax expense	3,028	3,188	1,330

9.8 Earnings per share

The following table shows earnings per share, calculated by dividing the result for the year by the weighted average number of ordinary shares outstanding during the year.

	Year ended December 31,		
	2018	2017	2016
Net profit - Shareholders of the parent company (In thousands of Euro)	5,952	4,492	6,786
Average number of ordinary shares	540,000	540,000	540,000
Earnings per share (In Euro)	11.02	8.32	12.57

Diluted earnings per share is equal to basic earnings per share as no financial instruments having potential dilutive effects had been issued.

10 RELATED PARTY TRANSACTIONS

Group transactions with related parties, identified in accordance with the criteria defined in IAS 24 – Related Party Disclosures, are mainly of a commercial and financial nature and were entered into under normal market conditions.

Although such related party transactions are performed under normal market conditions, there is no guarantee that, if they were concluded between or with third parties, such third parties would have negotiated and entered into such contracts, or performed the operations provided for therein, under the same conditions and using the same methods.

The Group has transactions with the following related parties:

- Newlat Group S.A., the direct or indirect controlling entity; and
- companies controlled by the direct controlling entity or indirect controlling entities, other than their own subsidiaries or associates (“Companies controlled by controlling entities”).

The following table shows details of balance sheet balances resulting from Group transactions with related parties as of December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Parent company		Companies under control of the parent			Total related parties	Total financial statement line item	Percentage of financial statement line item
	Newlat Group S.A.	Corticella	New Property	Other companies under control of the parent				
Right of use assets								
As of December 31, 2018	-	2,110	10,117	-	12,227	18,577	65.8%	
As of December 31, 2017	-	-	-	-	-	-	0.0%	
As of December 31, 2016	-	-	-	-	-	-	0.0%	
Financial assets at amortised cost								
As of December 31, 2018	-	125	610	-	735	858	85.7%	
As of December 31, 2017	-	125	610	-	735	975	75.4%	
As of December 31, 2016	-	-	-	-	-	293	0.0%	
Trade receivables								
As of December 31, 2018	-	-	-	19	19	53,869	0.0%	
As of December 31, 2017	-	-	-	19	19	54,430	0.0%	
As of December 31, 2016	-	-	-	19	19	47,343	0.0%	
Other current assets and receivables								
As of December 31, 2018	-	-	10,000	-	10,000	14,440	69.3%	
As of December 31, 2017	-	-	18,192	-	18,192	22,328	81.5%	
As of December 31, 2016	3,000	-	-	-	3,000	7,363	40.7%	
Cash and cash equivalents								
As of December 31, 2018	61,429	-	-	-	61,429	61,786	99.4%	
As of December 31, 2017	71,621	-	-	-	71,621	72,060	99.4%	
As of December 31, 2016	50,076	-	-	-	50,076	50,777	98.6%	
Non-current borrowings								
As of December 31, 2018	-	-	-	-	-	1,778	0.0%	
As of December 31, 2017	9,000	-	-	-	9,000	13,478	66.8%	
As of December 31, 2016	15,000	-	-	-	15,000	26,912	55.7%	
Non-current lease liabilities								
As of December 31, 2018	-	1,682	8,018	-	9,700	14,110	68.7%	
As of December 31, 2017	-	-	-	-	-	-	0.0%	
As of December 31, 2016	-	-	-	-	-	-	0.0%	
Other non-current liabilities								
As of December 31, 2018	-	-	-	-	-	3,121	0.0%	
As of December 31, 2017	-	-	-	-	-	4,619	0.0%	
As of December 31, 2016	9,150	17,002	-	-	26,152	40,770	64.1%	
Trade payables								
As of December 31, 2018	130	-	58	7	195	92,221	0.2%	
As of December 31, 2017	678	-	-	50	728	91,160	0.8%	
As of December 31, 2016	1,049	-	-	78	1,127	82,738	1.4%	
Current borrowings								
As of December 31, 2018	-	-	-	-	-	27,163	0.0%	
As of December 31, 2017	-	-	-	-	-	25,708	0.0%	
As of December 31, 2016	27,705	-	-	-	27,705	50,662	54.7%	
Current lease liabilities								
As of December 31, 2018	-	454	2,222	-	2,676	5,087	52.6%	
As of December 31, 2017	-	-	-	-	-	-	0.0%	
As of December 31, 2016	-	-	-	-	-	-	0.0%	

The following table shows details of Group transactions with related parties during the years ended December 31, 2018, 2017 and 2016:

<i>(In € thousands)</i>	Parent company		Companies under control of the parent		Total related parties	Total financial statement line item	Percentage of financial statement line item
	Newlat Group S.A.	Corticella	New Property	Other companies under control of the parent			
Cost of sales of goods							
Year ended December 31, 2018	-	469	2,291	114	2,874	256,060	1.1%
Year ended December 31, 2017	-	-	1,423	223	1,646	255,115	0.6%
Year ended December 31, 2016	-	-	-	302	302	241,299	0.1%
Administrative expenses							
Year ended December 31, 2018	990	-	-	-	990	12,663	7.8%
Year ended December 31, 2017	990	-	-	-	990	12,873	7.7%
Year ended December 31, 2016	990	-	-	-	990	13,241	7.5%
Finance income							
Year ended December 31, 2018	1,232	-	-	-	1,232	1,327	92.8%
Year ended December 31, 2017	842	-	-	-	842	886	95.0%
Year ended December 31, 2016	1,515	-	-	-	1,515	1,579	95.9%
Finance costs							
Year ended December 31, 2018	470	57	272	-	799	2,077	38.5%
Year ended December 31, 2017	834	-	-	-	834	2,403	34.7%
Year ended December 31, 2016	2,083	-	-	-	2,083	4,051	51.4%

Transactions with the controlling entity Newlat Group S.A.

Cash and cash equivalent balances amounting to €61,429 thousand, €71,621 thousand and €50,076 thousand as of December 31, 2018, 2017 and 2016 respectively related to the centralised treasury arrangements between group companies and the controlling entity. €26,522 thousand of current financial liabilities at December 31, 2016 related to the same arrangements. For further details regarding the centralised treasury arrangements, see Note 8.13 - “Cash and cash equivalents”.

The non-current borrowings at December 31, 2017 amounting to €9,000 thousand related to the loan agreement entered into by Newlat with the controlling entity following the Acquisition of the Corticella Business Unit. The non-current borrowings at December 31, 2016 amounting to €15,000 thousand related to the loan agreement entered into by Newlat with the controlling entity on December 27, 2016. For further details regarding such loan agreements see Note 8.17 - “Current and non-current borrowings”. It is also noted that on May 15, 2017 the controlling entity granted a further loan amounting to €25,000 thousand, paid on May 31, 2017, to Newlat. Such loan was transferred to New Property S.p.A. as part of the New Property Spin-off on May 23, 2017.

The other non-current liabilities due to the controlling entity as of December 31, 2016, amounting to €9,150 thousand, related to the residual amount due to Newlat Group S.A. in relation to the acquisition of 100% of the share capital of IAR S.p.A. (now merged by incorporation into Newlat). The payable in question was included as part of the New Property Spin-off.

The other current assets and receivables amounting to €3,000 thousand related to the receivable due by the controlling entity to IAR S.p.A. (now merged by incorporation into Newlat) in relation to the sale of the shares held in Pezzullo Molini e Pastifici S.p.A.

Administrative expenses in the years ended December 31, 2018, 2017 and 2016 included: (i) €480 thousand relating to management charges incurred by Newlat, Centrale del Latte di Salerno

and Newlat Deutschland in relation to service provision contracts; and (ii) €510 thousand relating to commissions incurred in relation to the centralised treasury arrangements entered into by Newlat, Centrale del Latte di Salerno and Newlat Deutschland.

Transactions with companies controlled by controlling entities

Companies controlled by controlling entities with which the Group entered into related party transactions during the periods under review include:

- Corticella, the company from which on May 23, 2017 the Corticella Business Unit business contributed to Newlat was carved out with the business unit lease agreement being terminated at the same time;
- New Property, the company to which on May 23, 2017 Newlat transferred certain assets through the New Property Spin-off;
- other companies controlled by controlling entities, including Newservice S.r.l., Latterie riunite Piana del Sele S.r.l. and Piana del Sele S.r.l..

Corticella

As of December 31, 2018, the right of use assets amounting to €2,110 thousand and current and non-current lease liabilities amounting to €454 thousand and €1,682 thousand respectively related to real estate properties owned by Corticella and leased to Newlat through a lease contract signed on July 1, 2017. The contract is accounted for in accordance with IFRS 16 and in 2018 involved the recognition of depreciation, included in cost of sales of goods, amounting to €469 thousand and finance costs amounting to €57 thousand. The non-current financial assets at amortised cost at December 31, 2018 and 2017 related to guarantee deposits paid to Corticella in relation to such contract.

The other non-current liabilities relating to Corticella at December 31, 2016, amounting to €17,002 thousand, related to the amount owing to Corticella in respect of the contractually agreed consideration for the option to purchase the real estate holdings, which was waived in favour of Newlat Group S.A..

New Property

As of December 31, 2018, the right of use assets amounting to €10,117 thousand and current and non-current lease liabilities amounting to €2,222 thousand and €8,018 thousand respectively related to the real estate properties included in the New Property Spin-off that were then leased to Newlat following such transaction. The contracts are accounted for in accordance with IFRS 16 and in 2018 involved the recognition of depreciation, included in cost of sales of goods, amounting to €2,291 thousand and finance costs amounting to €272 thousand. In the year ended December 31, 2017, lease charges amounting to €1,423 thousand were included in cost of sales of goods, in accordance with IAS 17. The non-current financial assets at amortised cost at December 31, 2018 and 2017 related to guarantee deposits paid to New Property in relation to such contracts.

The other current assets and receivables, amounting to €10,000 thousand and €18,192 thousand at December 31, 2018 and 2017 respectively, related to the difference between the book values of the assets and liabilities involved in the spin-off between December 31, 2016 and the date of the New Property Spin-off, namely June 1, 2017.

11 COMMITMENTS AND GUARANTEES

The following table shows details of operating lease commitments as of December 31, 2017 and 2016, in accordance with IAS 17. The present value of such commitments, as of December 31, 2018, is reported under lease liabilities in accordance with IFRS 16.

<i>(In € thousands)</i>	As of December 31,		
	2018	2017	2016
Lease commitments			
- within 1 year	-	1,931	1,062
- 1 to 5 years	-	18,075	3,932
- over 5 years	-	4,881	992
Totale lease commitments	-	24,887	5,986

Guarantees granted by Newlat Group S.A. in favour of the Group amounted to €47,900 thousand, €47,900 thousand and €38,900 thousand as of December 31, 2018, 2017 and 2016 respectively, of which €32,400 thousand related to a guarantee in respect of amounts due to credit institutions under available credit lines (see Note 8.17 of these Notes to the Combined Consolidated Financial Statements). The remaining balance, amounting to €15,500 thousand at December 31, 2018 and 2017 and €6,500 thousand at December 31, 2016 related to letters of patronage in favour of Newlat Deutschland in relation to its dealings with Unicredit.

12 OTHER INFORMATION

12.1 Compensation due to directors, statutory auditors and key management personnel

Compensation due to directors and statutory auditors for the years ended December 31, 2018, 2017 and 2016 amounted to €147 thousand, €146 thousand and €109 thousand respectively.

Total compensation due to key management personnel for the years ended December 31, 2018, 2017 and 2016 amounted to €1,546 thousand, €1,533 thousand and €1,744 thousand respectively.

No loans or advances were granted to directors or shareholders during the year.

12.2 Fees due to independent auditors

Fees due to independent auditors for the years ended December 31, 2018, 2017 and 2016 amounted to €105 thousand, €105 thousand and €112 thousand respectively.

12.3 Research and development

The Issuer's R&D activities consist in developing innovative products, often based on local traditions, to meet market requirements in line with the domestic economic climate.

Research and development costs incurred during the three-year period under review supported the Issuer's production and commercial strategies and were aimed at making the product offering more innovative and strengthening market position.

Research and development costs totalled €784 thousand in the year ended December 31, 2018, €943 thousand in the year ended December 31, 2017 and €1,004 thousand in the year ended December 31, 2016, corresponding to 0.3% of Group revenue from contracts with customers in each of the three years under review.

The Issuer intends to take advantage of the research and development tax credit provided for in Article 1, Paragraph 35 of Law no. 190 of 23 December 2014, calculated on expenditure incurred in each tax year in excess of average expenditure incurred in the preceding three tax years, and to make use of such tax credit in accordance with the provisions of such legislation.

12.4 Significant events occurring after the reporting period

Acquisition of Delverde

On April 9, 2019, Newlat signed an agreement with Molinos del Plata S.L.U. and Molinos Rio de la Plata S.A. to purchase the entire share capital of Delverde Industrie Alimentari S.p.A. (hereafter the “Acquisition of Delverde”). The purchase and sale of shares took place on signature of the contract.

The contract for the Acquisition of Delverde provided that Newlat pay a provisional price of €3,775 thousand on the contract execution date and that such amount be adjusted (up or down) based on differences between net financial debt and working capital balances as agreed by the parties and actual balances on the execution date. The steps followed to calculate the net financial debt and working capital balances used to determine the price consideration are defined in the contract. Further (downward) price adjustments are provided for in the contract to recognise any under-accruals relating to the period prior to the execution date in respect of discount agreements with large-scale retail groups, as well as any non-collection of trade receivables, net of the related provision included in the financial statements.

Receipt of receivable due from New Property

The receivable balance of €10,000 thousand due from New Property, representing the residual balance due in respect of the New Property Spin-off, was received in full on June 25, 2019 (see Note 1.2 of these Notes to the Combined Consolidated Financial Statements).

Audited financial information relating to the last three years and audit report for each year

The combined consolidated financial statements of the Newlat Group, as of and for the years ended December 31, 2018, 2017 and 2016 (hereafter, also referred to as the “**Combined Consolidated Financial Statements**”), prepared in accordance with IFRS and audited by PwC, which issued its audit report on July 22, 2019, are presented below.

The audit report is also reproduced below:



Independent auditor's report

To the Board of Directors of Newlat Food SpA

Opinion

We have audited the accompanying combined consolidated financial statements of Newlat Food SpA (hereinafter the "**Company**") together with its subsidiary and with Newlat GmbH Deutschland (hereinafter the "**Newlat Group**" or the "**Group**"), which comprise the consolidated statement of financial position as of December 31, 2018, 2017 and 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the years ended December 31, 2018, 2017 and 2016, and explanatory notes (hereinafter the "**Combined Consolidated Financial Statements**").

In our opinion, the Combined Consolidated Financial Statements give a true and fair view of the financial position of the Newlat Group as of December 31, 2018, 2017 and 2016, and of the result of its operations and cash flows for the years ended December 31, 2018, 2017 and 2016 in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") and with paragraph 2 - "Summary of accounting policies and criteria used in preparing the Combined Consolidated Financial Statements" of explanatory notes.

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 Combined Consolidated Financial Statements* section of this report. We are independent of the Company and of the Group pursuant to the regulations and standards on ethics and independence of the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants, applicable to the audit of the Combined Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Aspects

The Combined Consolidated Financial Statements mainly represent the combination of the consolidated financial statements of Newlat Food SpA and the financial information prepared in accordance with IFRS of the company under common control Newlat GmbH Deutschland, and have been prepared solely for its inclusion (i) in the Registration Document for the listing of the ordinary shares of Newlat Food SpA on the Mercato Telematico Azionario organized and managed by Borsa

PricewaterhouseCoopers SpA

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Italiana SpA and (ii) in any further offering documents relating to sale of the shares of Newlat Food SpA outside the Italian territory to foreign institutional investors.

The Newlat Group, as identified for the definition of the scope of consolidation in the Combined Consolidated Financial Statements, has not operated as a separate entity for the years ended December 31, 2018, 2017 and 2016. The Combined Consolidated Financial Statements are not, therefore, necessarily representative of the results that would have occurred if Newlat Group had been a separate entity during the years presented.

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

The directors are responsible for the preparation of Combined Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with paragraph 2 - "Summary of accounting policies and criteria used in preparing the Combined Consolidated Financial Statements" of explanatory notes, and in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of Combined 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 Combined 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 Combined Consolidated 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 Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the Combined 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 Combined 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 Combined 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 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 and 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 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 and the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the Combined Consolidated Financial Statements, including the disclosures, and whether the Combined 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 Combined 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 Combined 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.

Parma, July 22, 2019

PricewaterhouseCoopers SpA

Signed by

Gianni Bendandi
(Partner)

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