CONSOLIDATED FINANCIAL STATEMENTS

31st DECEMBER 2018

PHARMANUTRA S.P.A.

Tax ID code 01679440501 – VAT number 01679440501

Registered office: VIA DELLE LENZE, 216/B - 56122 PISA (Province of Pisa)

Economic Administrative Index 146259

Company Register of PISA No. 01679440501

Share capital 1,123,097.70 euros fully paid-up

www.pharmanutra.it

The composition of the Corporate Bodies

Board of Directors

Andrea Lacorte (President)

Roberto Lacorte (Vice President)

Carlo Volpi (Director)

Gianni Lazzarini (Director)

Germano Tarantino (Director)

Simone Strocchi (Director)

Alessandro Calzolari (Independent Director)

Giuseppe Turchetti (Independent Director)

Board of Statutory Auditors

Michele Lorenzini (President of the Board of Statutory Auditors)

Guido Carugi (Acting auditor)

Andrea Circi (Acting auditor)

Audit firm

BDO Italia S.p.A.

Nomad

CFO SIM S.p.A.

REPORT ON OPERATIONS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AT 31/12/2018

Dear Shareholders,

The consolidated financial statements for the financial year ended 31/12/2018 show a net profit of 8.6 million euros compared to the net profit of 6.0 million euros in the previous year.

This result has been achieved by allocating an amount of tax equal to 3.3 million euros (net of prepaid taxes) to the result before tax equal to 11.9 million euros (8.8 million euros in 2017). The profit before taxes in turn, has been determined by allocating 662 thousand euros (583 thousand in 2017) to amortisation and depreciation.

The Pharmanutra Group (hereinafter also the “Group”) is composed of Pharmanutra S.p.A. (“Pharmanutra”) and its subsidiaries Junia Pharma S.r.l. (“Junia Pharma”) and Alesco S.r.l. (“Alesco”).

Pharmanutra, a nutraceutical company with headquarters in Pisa, is specialised in the development of nutritional supplements and medical devices. In particular, it conducts research, design, development and marketing of proprietary and innovative products. Among these, the most important are those based on Iron Sucrosomial®, consisting of the products of the Sideral® line and products intended to restore articulation and movement in osteoarticular diseases consisting of the Cetilar® line.

It adopts rigorous quality standards by always giving high importance to the unique and exclusive raw materials used for the whole national territory.

It studies and produces formulations from the important scientific background.

From 2005, it has developed and sold directly and autonomously a line of products under its own brand, managed through a structure of medical sales representatives who present the products directly to the medical profession.

Pharmanutra possesses today the know-how to manage all stages from design, to the development and registration of a new product, marketing and commercialisation, up to the training of the sales representatives.

The commercial model developed has been singled out by important marketing experts for health as an example of innovation and efficiency in the whole panorama of pharmaceuticals.

The company has also enhanced the activity of research and development in order to further strengthen the results in its specialist field.

Junia Pharma deals with the production and commercialisation of drugs and medical devices, OTC and nutraceutical products directed to paediatric sector.

Alesco produces and distributes raw materials and active ingredients for the food and pharmaceutical industry, and food supplementation.

In accordance with Article 2428 of the Civil Code, it should be noted that the activity of all three companies has taken place at the registered office at Via delle Lenze, 216/B - Pisa (Province of Pisa), where all the offices are situated.

Operating conditions and the development of the activity

The analysis of the situation of the Group, its progress and management results are analysed in the following paragraphs, specifically dedicated to the market scenario and the products and services offered, investments and to the main indicators of economic development and the evolution of the balance sheet and financial situation.

1.2 Progress and management results

The consolidated financial statements of the Group Pharmanutra at 31/12/2018 shows the following values:

	2018 restated		2017 restated			
	31/12/2018	%	31/12/2017	%	CHANGE	
NET REVENUE/CHANGE	46.7	100%	37.8	100%	+	23%
GROSS OPERATING RESULT	11.8	25%	9.5	25%	+	24%
NET RESULT	8.6	18%	6.0	16%	+	42%
	31/12/2018		31/12/2017			
NET FINANCIL POSITION	(11.4)		(9.1)			

It should be noted that revenues and gross operating result indicated in the table above does not include non-recurring revenue equal to 820 thousand euros, and the related non-recurring costs equal to 82 thousand euros, reported to the benefit, represented by the tax credit under Article 3 of Legislative Decree No.145/2013, in accordance with the terms and methods referred to in Ministerial Decree 27/05/2015 and subsequent modifications in view of the research and development activities conducted by Pharmanutra and Alesco for the years 2015-2017.

In 2018, the Group recorded consolidated net revenues equal to 46.7 million euros, increasing by 23% compared to the previous year.

This result has been achieved thanks to the positive contribution of the Sideral® brand products and by a significant growth in turnover for Cetilar® brand products intended for the market of topical products for osteo-articular illnesses.

In the course of 2018, the Group has further strengthened its presence in international markets with revenues growing from 8.1 million euros of the previous year to 12.4 million euros, with an increase of 52%. The foreign revenues account for 26% of total revenues.

The **gross Operating Result** restated by the Group amounted to about 11.8 million euros (9.5 million euros at 31/12/17), equal to a margin of 25% and with a growth of 24% compared to 2017.

The **net profit of the 2018**, equal to 8.6 million euros, has increased compared to the previous year by an amount equal to 2.6 million euros, with a growth of 42%.

The **net financial position** of 2018 represents a positive development compared to 31st December 2017 by passing from a positive balance of 9.1 million euros to a positive balance of 11.4 million euros.

This significant increase in performance is the result of continuous research and development and clinical activities on the products themselves, which generate a stronger awareness of the effectiveness of the products with the medical profession and a growing perception of quality by consumers.

The Group Pharmanutra is consolidating therefore, its great ability to generate cash with a positive liquidity flow deriving from the operational management of 6.4 million euros.

At the end of the financial year, the notices of assessment relating to the tax dispute in the financial years 2013, 2014 and 2015 were settled by means of voluntary correction and acquiescence. Since the shareholders already existing before the listing process have issued statements and guarantees to cover the tax risk, as is apparent from the first section, Chapter 16, Paragraph 16.1 of the admission document which provide indemnity to Pharmanutra, we have requested form those members the reimbursement of costs incurred.

The results of the Group Pharmanutra

Indicated below are the economic data and assets reclassified *RESTATED*. It should be noted that the some items of 2017 were the subject to the reclassification in order to improve the comparison with the data of 2018.

Re-classified consolidated Balance Sheet

BALANCE SHEET	31/12/2018	31/12/2017
- Inventory	2,149,425	1,878,498
- Trade receivables	12,977,053	10,084,201
- Trade payables	(6,665,917)	(4,860,073)
- Other current assets	3,196,859	582,866
- Other current debt	(2,791,589)	(2,223,257)
Net working capital	**8,865,832**	**5,462,236**
Fixed assets	5,694,829	5,557,682
Other non-current assets	743,185	596,942
Fixed assets	**6,438,014**	**6,154,624**
Net Equity:	**24,442,354**	**19,098,331**
Funds	**2,231,612**	**1,611,074**
- Cash availability	(14,968,178)	(14,056,376)
- Current financial assets	(864,601)	-
- Non-current financial assets	(879,493)	(650,741)
- Current financial debt	3,511,399	2,627,092
- Non-current financial debt	1,830,753	2,987,479
Net financial position	**(11,370,120)**	**(9,092,546)**

Reclassified consolidated income statement

	Restated 31/12/2018	Restated 31/12/2017
Revenues	**47,298,239**	**37,867,223**
Operating costs	35,458,605	28,359,745
- Services	29,664,877	23,763,045
- Personnel	2,801,402	2,522,695
- Other costs	2,992,326	2,074,005
Gross Operating Result	**11,839,634**	**9,507,479**
Net Operating Result	**11,177,972**	**8,924,514**
- Financial management	(62,563)	(88,736)
- Non-recurring income	738,340	(66,013)
Taxes	(3,296,250)	(2,739,275)
Net income	**8,557,497**	**6,030,489**

The reconciliation of the *RESTATED results* at 31st December 2018 and 2017 with data of the financial statements is disclosed hereinafter:

Restated Consolidated income statement

INCOME STATEMENT	Notes	*REPORTED* 2018	Management Adjustments	*RESTATED* 2018	*REPORTED* 2017	Management Adjustments	*RESTATED* 2017
A) REVENUES		**48,118,617**	**(1) (820,378)**	**47,298,239**	**37,867.223**		**37,867,223**
Net revenues	7,6,1	46,672,503		46,672,503	37,794,099		37,794,099
Other revenues	7,6,2	1,446,114	(820,378)	625,736	73,124	-	73,124
Of which other non-recurring revenues		820,378	(820,378)	-			
B) OPERATING COSTS		**35,540,643**	**(82,038)**	**35,458,605**	**28,425,758**		**28,359,745**
Purchasing of ancillary raw materials and consumables	7,7,1	2,742,892		2,742,892	2,539,813		2,539,813
Change in inventory	7,7,2	(270,927)		(270,927)	(778,602)	(43,513)	(822,116)
Costs for services	77,3	29,746,914	(2) (82,038)	29,664,877	23,763,045	-	23,763,045
Of which non-recurring costs for services			*(82,038)*	(82,038)			
Personnel costs	7,7,4	2,801,402		2,801,402	2,540,283	(17,589)	2,522,695
Other operating costs	7,7,5	520,362	-	520,362	361,219	(4,911)	356,308
(A-B) GROSS OPERATING RESULT		**12,577,974**	**(738,340)**	**11,839,634**	**9,441,465**		**9,507,479**
C) Amortisation, depriciation and write-downs		661,662		661,662	582,965		582,965
(A-B-C) OPERATING RESULT		**11,916,312**	**(738,340)**	**11,177,972**	**8,858,500**		**8,924,514**
D) FINANCIAL REVENUES [COSTS]		**(62,563)**	**-**	**(62,563)**	**(88,736)**		**(88,736)**
Financial revenues	7,8,1	5,846		5,846	9,265		9,265
Financial costs	7,8,2	(68,409)	-	(68,409)	(98,001)		(98,001)
E) NON-RECURRING REVENUES AND CHARGES		**-**	**738,340**	**738,340**	**-**		**(66,013)**
Non-recurring revenues and charges			738,340	738,340	-	(66,013)	(66,013)
PRE-TAX RESULT (A-B-C+D)		**11,853,748**	**-**	**11,853,748**	**8,769,764**		**8,769,764**
Taxes	7,10	(3,296,250)		(3,296,250)	(2,739,275)		(2,739,275)
Profit/loss of third-party		**-**		**-**	**-**		**-**
Profit/loss of the group		**8,557,497**	**-**	**8,557,497**	**6,030,489**		**6,030,489**

Management adjustment:

(1) The amount of 820 thousand euros refers to the benefit of the tax credit pursuant to Article 3 of Legislative Decree No.145/2013, in accordance with the terms and methods referred to Ministerial Decree of 27/5/2015 and subsequent modifications in view of the research and development activities conducted by Pharmanutra and Alesco and reported in the financial years 2015, 2016 and 2017.

(2) The amount of 82 thousand euros refers to the costs related to the calculation of tax credit.

Net financial position

Net financial position	31/12/2018	31/12/2017
Fund	(23,305)	(24,128)
Cash availability	(14,944,874)	(14,032,247)
Total cash availability	**(14,968,178)**	**(14,056,376)**
Current financial assets	(864,601)	-
Current financial liabilities: due to banks	2,357,882	1,367,239
Current portion of non-current debt	1,153,517	1,259,854
Current financial debt	**2,646,799**	**2,627,093**
NET current financial debt	**(12,321,380)**	**(11,429,282)**
Non-current financial assets	(671,213)	(337,973)
Deposits	(208,280)	(312,770)
Non-current bank debts	1,818,453	2,971,971
Derivative financial instruments	12,300	15,508
NON-current financial debt	951.260	2,336,736
Net liquidity	**(11,370,120)**	**(9,092,546)**

1.3 Economic situation and equity of the Parent Company

Pharmanutra S.p.A at 31st December 2018, had the following results:

- NET PERIOD RESULT: 7,377,117
- NET FINANCIAL POSITION: (11,605,164)

The synthetic tables of the balance sheet and the income statement of the Parent Company at 31/12/2018 are shown below. It should be noted that for the purpose of better comparability with the balances of the consolidated financial statements, the balances represented include the effects of the application of the valuation and measurement criteria established by the *International Financial Reporting Standards* (IFRS).

Pharmanutra S.p.A.Reclassified income statement

	Restated 2018	Restated 2017
Revenues	**38,578,056**	**30,370,197**
Operating costs	29,689,544	23,516,011
- Services	25,454,305	20,530,322
- Personnel	1,886,957	1,602,465
- Other costs	2,348,282	1,383,224
Gross Operating Result	**8,888,512**	**6,854,186**
Net Operating Result	**8,357,748**	**6,445,638**
-Financial management	827,121	178,614
Non-recurring income	698,854	-
Pre taxes result	**9,883,723**	**6,624,251**
Taxes	(2,506,606)	(2,019,491)
Net income	**7,377,117**	**4,604,761**

Pharmanutra S.p.A. Reclassified Balance Sheet

	31/12/2018	31/12/2017
- Inventory	1,141,685	1,185,193
- Trade receivables	11,187,513	8,381,904
- Trade payables	(6,283,232)	(4,781,499)
- Other current assets	2,877,872	478,235
- Other current debt	(2,258,483)	(1,419,100)
Net working capital	**6,665,356**	**3,844,732**
Fixed assets	1,853,239	1,688,015
Other non-current assets	3,326,677	3,268,797
Fixed assets	**5,179,917**	**4,956,813**
Net Equity:	**21,495,703**	**17,320,431**
Funds	**1,954,734**	**1,405,528**
- Cash availability	(13,981,651)	(13,449,912)
- Current financial assets	(864,601)	-
- Non-current financial assets	(839,700)	(610,960)
- Current financial debt	2,711,584	1,789,611
- Non-current financial debt	1,369,204	2,346,846
Net financial position	**(11,605,164)**	**(9,924,415)**

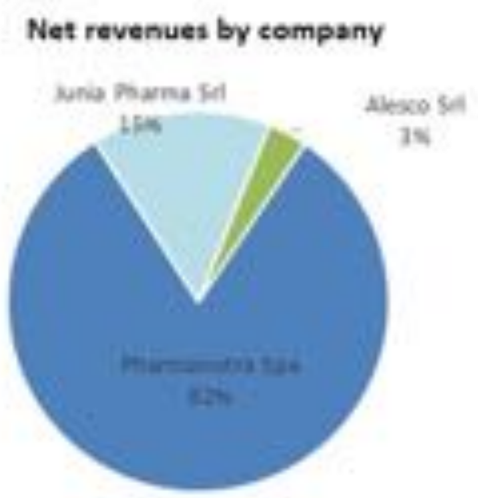
Net financial position Pharmanutra S.p.A.

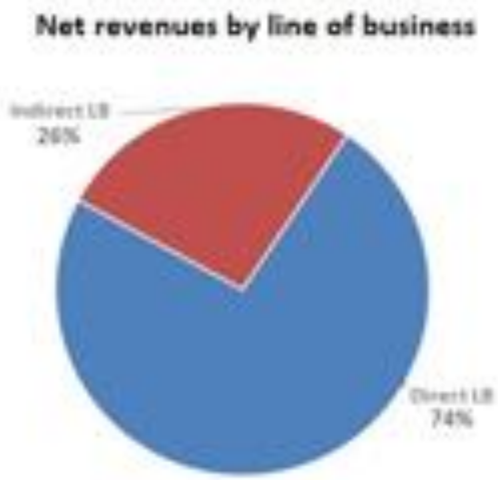
Net financial position	31/12/2018	31/12/2017
Fund	(22,502)	(22,541)
Cash availability	(13,959,149)	(13,427,371)
Total cash availability	**(13,981,651)**	**(13,449,912)**
Current financial assets	(864,601)	-
Account: subject to collection advances	1,737,150	762,399
Current portion of non-current debt	974,434	1,027,213
Current financial debt	**1,846,983**	**1,789,612**
Net current financial debt	**(12,134,668)**	**(11,660,300)**
Non-current financial assets	(671,213)	(338,023)
Deposits	(168,488)	(272,939)
Non-current bank debts	1,356,904	2,331,338
Derivative financial instruments	12,300	15,508
NON-current financial debt	**529,504**	**1,735,885**
Net liquidity	**(11,605,164)**	**(9,924,415)**

Company performance

During 2018, the company achieved a good result in terms of core activity, improving on the result achieved in the previous year.

The following is a breakdown of net revenues by company and business lines.





Pharmanutra Group Business Lines

The Pharmanutra Group's distribution and sales model consists of two main Business Lines:

- **Direct Business Line (LB1):** it is characterised by its direct presence in the reference markets in which the Group operates; the logic that governs this model is to ensure complete control of the territory through an organisational structure of medical sales representatives, who, by carrying out sales and scientific information activities, ensure full control over all the participants in the distribution chain: hospital doctors, outpatient doctors, pharmacies and hospital pharmacies.

  This model, adopted in the Italian market, characterises the two companies of the Pharmanutra Group and Junia Pharma.

  Alesco's commercial activity in Italy is directed outside the group, to companies which operate in the food, pharmaceutical and nutraceutical industry, as well as to the production facilities of nutraceutical products that work on behalf of third parties and, within the group, consist in the supply and sale of raw materials to Pharmanutra and Junia Pharma.

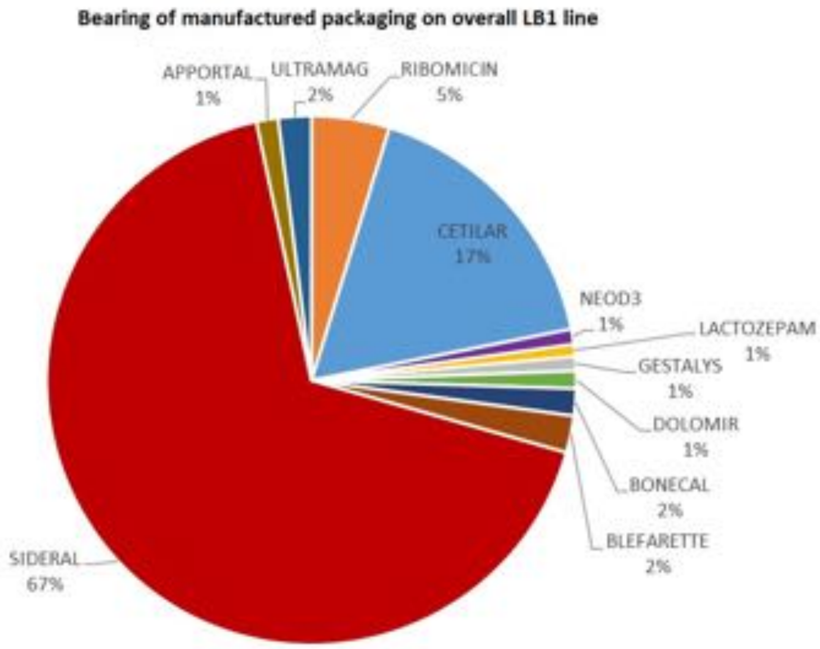
Sales through the commercial network of medical sales representatives, called “Direct Business Line” ensures 74 % of turnover, while the remaining 26% is guaranteed by the sales abroad or to distributor customers hereinafter referred to as “Indirect Business Line”

By carrying out an analysis in terms of packages sold of Pharmanutra Spa and Junia Pharma Srl, “Direct Business Line” total sales in 2018 reached 2.6 million units of products in the Italian market, with an increase compared to 2017 of 360,000 units (+16%).

Inside the product portfolio of both companies, an important growth is recorded compared to 2017 for the Sideral® and Cetilar® product lines: CardioSideral® (+30%), Sideral® Folic (+28%), Sideral® Oro (+24%), Cetilar® Patch (+20%) and Cetilar® Cream (+20%).

The Sideral® Line in its various products, represents 67% of the entire list of the companies Pharmanutra SpA and Junia Srl.

It is worth noting the launch in 2018 of 8 new references, which represented 28% of the overall 2018 growth compared to the previous year; for Junia Pharma, this is the Capricare product launched in January (in the two developments Capricare 1 – goat milk for infants up to 6 months and Capricare 2 – goat milk for infants from 6 months of age), the NeoD3 Forte launched in May, the Sideral® Forte Gocce and Sideral® Oro 14 marketed from September; for Pharmanutra, Ultramag and Sideral® folico products were launched in May; in September, the Apportal and Sideral® H products.



- **Indirect Business Line(LB2):** The business model is common to all three companies and is used mainly in foreign markets. It is characterised by the commercialisation of finished products (Pharmanutra and Junia Pharma) and raw materials (Alesco) through local partners, who, by virtue of long-term distribution contracts, distribute and sell the products in their respective specialist markets.

General economic performance

In recent months, the growth of the world economy has continued, but signals of cyclic deterioration appeared in many advanced and emerging economies; the prospects of world trade continue to worsen after the slowdown in the first part of last year. The uncertainties on the cyclical framework have had repercussions on the international financial markets, with a decline in the long-term yields and a fall in share prices. The global prospects are affected by the risks related to a negative outcome of the trade negotiations between the United States and China, to the possible recurrence of financial tensions in the emerging countries and the possibilities for the outcome of Brexit. Growth in the euro area has weakened; in November industrial production decreased significantly in Germany, France and Italy. Inflation, while remaining on broadly positive values, dropped due to the slowing down of energy prices. The Governing Council of the ECB has reiterated its intention to maintain a significant monetary stimulus for a prolonged period.

Source: Economic Bulletin Bank of Italy

In Italy, the recent trend in the manufacturing sector confirms the phase of difficulty in maintaining production levels. Employment has maintained the levels of previous months and the unemployment rate has recorded a slight decrease. Although the employment rate has returned to pre-crisis levels, particularly due to a significant increase of temporary employment, the process of reducing unemployment still appears to be slow. The reduction in energy prices contributed to a sharp slowdown in Italian inflation and that of the euro area.

In December, the consumer confidence climate index showed a further widespread decline for all components: expectations for the future have recorded the most sustained decrease and unemployment expectations increased. In the same month, even the confidence of business deteriorated in all economic sectors with the exception of retail trade. The leading indicator showed a new decline, suggesting the continuation of the current weakness of the Italian economic cycle.

In December, the Italian labour market confirmed the picture of substantial employment stability in the presence of slight improvements in unemployment. The slight increase in the employment rate (58.8%, +0.1 percentage points compared to the previous month and quarter) was determined mainly by growth of fixed-term employees that has more than offset the decline in permanent employees. People in search of employment decreased (-44 thousand compared to the previous month) causing a decrease in the rate of unemployment (10.3%, down 0.2 percentage points compared to the previous month). However, in the fourth quarter, unemployment recorded an increase (+64 thousand units compared to the previous quarter). The unemployment rate remained among the highest in the euro area (with Spain and Greece) both with regard to the entire population and age groups under 35 years old.

In 2018, the recovery of Italian household spending continued to fade out. On the basis of the data of ISTAT quarterly accounts, in the second quarter of 2018, the pace of consumption slowed in cyclical terms due to political uncertainty resulting from the time necessitated for the formation of a new government. Quantitative and qualitative information for the second part of the year indicate a continuation of the growth of consumption, but at a relatively moderate rate, which could be seen as an increase in the average of the year by 0.8% in volume and 2% in value, a slowdown compared to large increases recorded in the years 2016-17.

Source: Economic Bulletin Bank of Italy – Monthly report and ISTAT report

Economic trends in the pharmaceutical sector and of supplements

The market of supplements

In the last three years, the value of the market for food supplements with regard to the channels monitored has recorded an average growth of 6.3% (CAGR% 2016-2018), in line with the trend observed in pharmacy, and equal to 6.1%. In the same period, hypermarkets and supermarkets have reported an average growth respectively of 6%, the corner pharma 12.9%, creating an overall value, at the end of 2018, of 269 million euros.

Observation of the dynamics of the total volumes in the last three years shows an average growth of 4.4%, with differences between the pharmacy (4.1%), hypermarkets and supermarkets (5.4%) and the corner pharma (9.9%).

The year 2018 has closed compared to the previous year with an increase in the value of +4% and +2.3% as regards sales volumes. As a result of these changes, the final value of the market amounted to 3,116 million euros for a total of 222 million packages sold. The trend observed over the last year showed a slowing down of the growth of the market compared to the period observed in 2016 - 2018.

In December 2018, consumption was instead stable (+0.2%) compared to the previous year[1].

Trend of value and volumes in the last 3 years[2]:

With reference to the levels of concentration within each channel of sale, no particular deviations have been observed with respect to that detected in 2017. In terms of sales value, the share of total from the first fifty companies in the pharmacy market is equal to 57%, equal to 96 % of the value of the sales of supplements in hypermarkets and supermarkets, while in the corner pharma, the combined market share of the first 50 operators is stable and equal to 89%.

In terms of the market value generated by grouping the individual categories of food supplements in functional areas (for greater detail, please refer to the key at the end of the document), the main positioning is confirmed of the area of vitamins and minerals that responds to different functions of use. Following are the areas: intestinal health, cardiovascular health, health of respiratory tract and natural defences and mental wellbeing and night rest (*Table on the next page*). The leading role of pharmacy is confirmed which represents over 80% of the value of the market in most of the functional areas, in some cases with an almost exclusive position. The pharmacy also highlights the important role played by innovation, for example, products launched on the market in the period January 2017-December 2018 in the area of vitamins and minerals represent 14% of the total value generated in this area over the last year.

[1] Source: The market for Supplements December 2018 - FederSalus
[2] Source: Processing of the New Line market research data and IRI (MAT December 2017 and 2018)

The role of the large-scale distribution, including also the value generated in the corner pharma located inside hypermarkets and supermarkets, is confirmed as relevant in areas such as digestion and the acidity of the stomach, metabolism, purification and weight control respectively, with market shares of 14% and 27% of the total value generated.

The trend analysis shows that better performances, compared to the 4% market value increase in the last year, are reported in the areas: mental wellbeing and nocturnal rest (+7.7%), digestion and the acidity of the stomach (+7.6%) and muscle skeletal health (+7.4%).

The area of the health of the respiratory tract and the natural defences shows results aligned to the market trend (+4.2%).

However, supplements for metabolism and purification and weight control (-4.7%) and products for the health of the eyes (-2.6%) and those related to the wellbeing of women have fluctuated (-1.9%).

The main functional areas: the weight of distribution channels in terms of value generated

The ranking of the main functional areas in terms of volumes has some differences compared to the one being analysed in terms of the value generated.

Immediately after the area of vitamins and minerals are, for volumes generated, the areas of intestinal health, metabolism, purification and of weight control.

In terms of consumption, the weight of large-scale distribution is equal to 20% in the field of the vitamins and minerals, to 56% in the area of the metabolism and 46% within the field of digestion and the acidity of the stomach. It is specified that in large-scale distribution, in particular with reference to shelf-generated sales, assortments, numerical references and average prices with different characteristics compared to the pharmacy are observed.

In particular, the increase is highlighted in volumes expressed from the area of the mental wellbeing and nocturnal rest (+6.3%) and from the muscle and skeletal area (+4.8%). In terms of volumes, the area of cardiovascular health is relatively stable (-1%), whereas supplements for the health of the eyes (-2.7%) and those related to the women's health have fluctuated (-2.3%).

The main functional areas: the weight of distribution channels in terms of volumes

Source: federSalus

The market of iron supplements - Pharmanutra S.p.A.

Pharmanutra S.p.A. is the market leader in the category of nutritional supplements of iron with the line of products Sideral®.

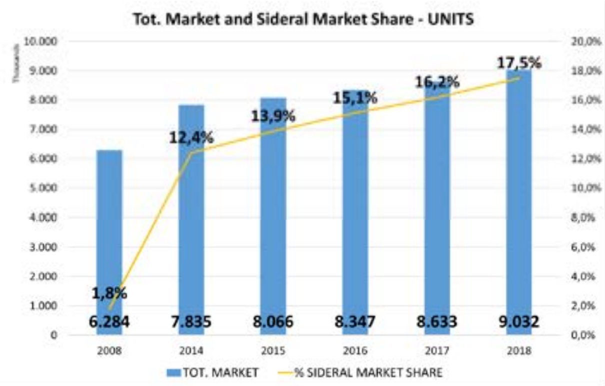
The Sideral® line, in fact, has grown in 2018 by 16% from 1,520,559 units to almost 1,729,300 units with an incidence of 67% on the entire list.

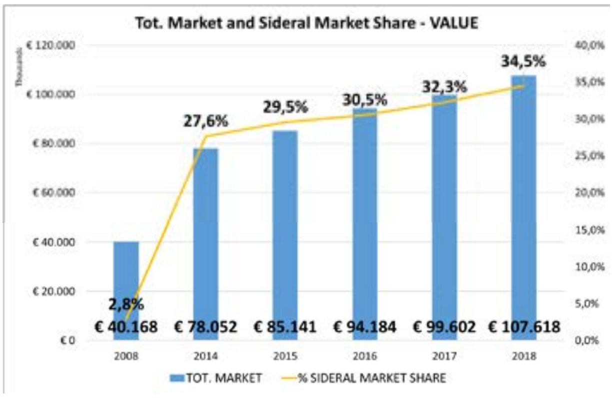
In the overall iron market, the market share growth in volumes of Sideral® is considerable. The trend of the packages sold of the Sideral® line in the segment during the period 2008-2017 recorded a Cagr in growth of 30% and 42% in value against a Cagr of the market for the same period equal to 4% in units and 10% in value.

Market share of Sideral® (expressed in volume and value/euro) in relation to the total of the Iron market[3]:

[3] Source: Data IMS Health.

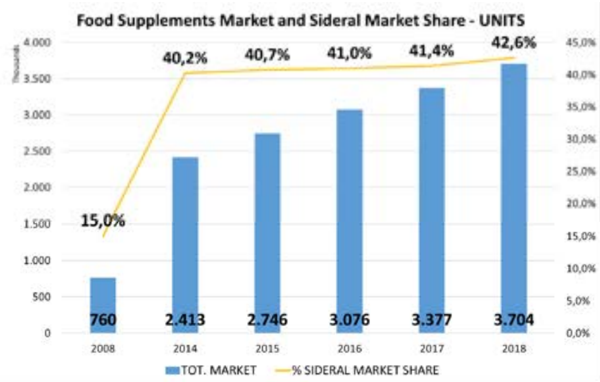
PharmaNutra

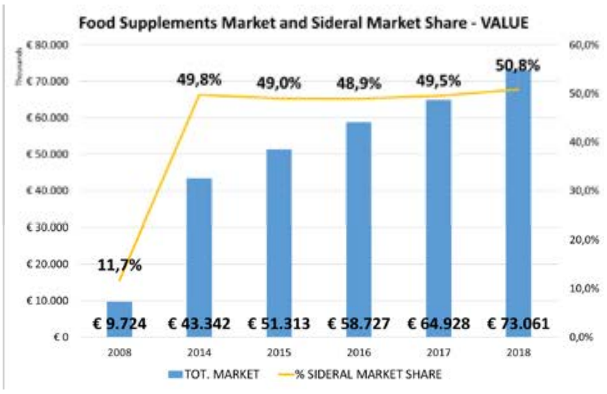




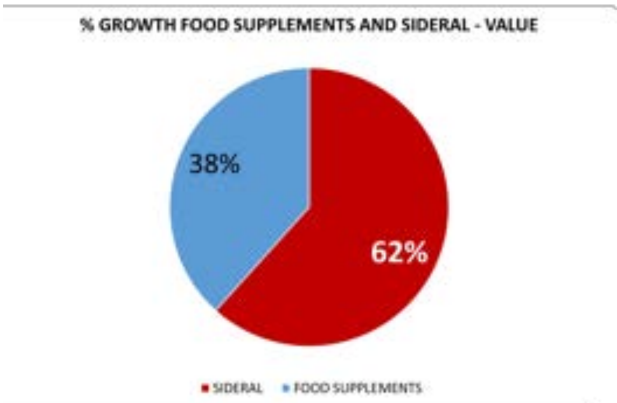
In the general market alone of food supplements in the period 2008-2017, the Sideral® line increased its market share, rising from 15% in 2008 to almost 43% in 2018. In terms of value, Sideral® brand products held a market share in 2018 which exceeded 50%.

The trend of the market share of Sideral® (expressed in volume and value/euro) in relation to the market for food supplements:





The Sideral® line represents 62% of the overall growth in value recorded by the market of food supplements in 2018 compared to 2017, confirming the leadership position, and actually determining the growth of the market[4]:



[4] Source: Data IMS Health.

The topical pain relief market - PharmaNutra Spa

Within the field of the topical pain relief market, 2 years after the launch of the new product of the Group, Cetilar (which replaced both formulations Crema and Patch, the Celadrin product) has recorded a significant growth, with important development prospects for future years.

The following chart shows the development of the market share of Cetilar, in units and value in relation to the market of reference[5].

In a context of a stable market and in a highly fragmented competitive scenario in which, in the last three years, has recorded a negative Cagr equal to -0.3% in units and 3% value, the Cetilar line has shown a growth rate equal to 24% in units and at 25% value, confirming the effectiveness and the quality of its products.

[5] Source: Data IMS Health

Group performance

The tables that follow show the income statement and the balance sheet reclassified over the last three financial years.

CONSOLIDATED INCOME STATEMENT

Amounts in thousand Euro	*Restated* 2018	%	*Restated* 2017	%	2016	%
REVENUES	**47,298**	**100%**	**37,867**	**100%**	**33,013**	**100%**
Net revenues	46,673	98.7%	37,794	99.8%	32,781	99.3%
Other revenues	626	1.3%	73	0.2%	232	0.7%
OPERATING COSTS	**35,459**	**75.0%**	**28,426**	**75.1%**	**25,888**	**78.4%**
Purchasing of ancillary raw materials and consumables	2,743	5.8%	2,540	6.7%	2,472	7.5%
Change in inventory	(271)	-0.6%	(779)	-2.1%	248	0.8%
Costs for services	29,665	62.7%	23,763	62.8%	20,657	62.6%
Personnel costs	2,801	5.9%	2,540	6.7%	1,988	6.0%
Other operating costs	520	1.1%	361	1.0%	523	1.6%
GROSS OPERATING RESULT (EBITDA)	**11,840**	**25.0%**	**9,441**	**24.9%**	**7,125**	**21.6%**
Amortisation, drepreciation, and write-downs	662	1.4%	583	1.5%	943	2.9%
EBIT	**11,178**	**23.6%**	**8,859**	**23.4%**	**6,182**	**18.7%**
FINANCIAL MANAGEMENT BALANCE	**(63)**	**-0.1%**	**(89)**	**-0.2%**	**(129)**	**-0.4%**
NON-RECURRING INCOME AND CHARGES	**738**	**1.6%**	**-**	**0.0%**	**-**	
PRE-TAX RESULT	**11,854**	**25.1%**	**8,770**	**23.2%**	**6.053**	**18.3%**
Taxes	(3,296)	-7.0%	(2,739)	-7.2%	(2,202)	-6.7%
Profit/ loss third-parties	0		0			
Profit/ loss of the group	**8,557**	**18.1%**	**6,030**	**15.9%**	**3,851**	**11.7%**

The financial year 2018 confirmed the growth trend of the previous years. The growth in net revenues (+23,5% compared to the previous financial year) corresponds to a proportional growth in operating costs with investment in staff, infrastructure and research and development to adapt the structure of the Group to higher levels of activity, and at the same time ensure the development of new products while ensuring the highest professional quality standards. The main indicators of economic profitability, Ebitda and Ebit restated, stand respectively at 25% and 23.6% in further improvement compared to previous years.

The item “Non-recurring Income and Expenses” includes the amount relating to the tax credit on research and development expenses for the years 2015, 2016 and 2017, net of the costs incurred for the preparation of the documentation to support the credit, which has already reported.

RE-CLASSIFIED CONSOLIDATED BALANCE SHEET

Importi in €/000	31/12/2018	31/12/2017	31/12/2016
Trade receivables	12.977	10.084	8.736
Inventories	2.149	1.878	1.097
Trade payables	(6.666)	(4.860)	(4.197)
Operating Working Capital	**8.461**	**7.103**	**5.636**
Other receivables	3.197	583	586
Other payables	(2.792)	(2.223)	(2.227)
Net Working Capital	**8.866**	**5.462**	**3.995**
Intangible assets	4.729	4.425	4.186
Tangible assets	966	1.133	1.023
Financial assets	743	597	447
Total assets	**6.438**	6.155	**5.656**
Funds and othe l/t liabilities	(2.232)	(1.611)	(1.051)
TOTAL INVESTED CAPITAL	**13.072**	**10.006**	**8.600**
Net Equity	24.442	**19.098**	**6.655**
Non current financial debts	1.831	2.987	1.689
Current financial debts	3.511	2.627	3.158
Non current financial assets	(879)	(651)	(319)
Current financial assets	(865)	-	-
Cash and cash equivalents	(14.968)	(14.056)	(2.583)
Net Financial Position	**(11.370)**	**(9.093)**	**1.945**
TOTAL FUNDS	**13.072**	**10.006**	**8.600**

The increase of operating working capital which has occurred compared to the previous year derives from the dynamics of invoicing which characterise the end of the financial year. The increase in the item “Other receivables” refers to receivables due from shareholders already existing before the listing for the reimbursement for the closure of the tax dispute concerning the financial years 2013, 2014 and 2015, and the payment of a deposit for the purchase of land and advances paid to suppliers. The increase in the item “Funds and other M/L liabilities” derives from the provision to the the Directors' Severance Pay Fund.

The Net Financial Position has improved, growing from a balance of 9.1 million euros at 31/12/2017 to 11.4 million euros at 31 December 2018. The item “Current financial assets” refers to the temporary investment of part of the liquidity of the Group with the subscription of bonds within the scope of the individual management mandate conferred on Azimut Capital Management.

Pursuant to Article 2428, Paragraph 1-bis, of the Civil Code below, some result indicators are analysed, chosen from among those deemed most significant.

	2018 *Restated*	2017 *Restated*	2016
EBITDA	25.0%	24.9%	21.6%
EBIT	23.6%	23.4%	18.7%
R.O.S. (gross result/ net sales)	23.9%	23.4%	18.9%
R.O.I. (gross result/ net invested capital)	85.4%	88.5%	71.9%
R.O.E (result for the year/ net equity)	35.0%	31.6%	57.9%

Capital expenditures

In the course of 2018, the Group has made investments in fixed intangible assets totalling 529 thousand euros of which

- 352 thousand euros for maintenance, defence and the registration of trade marks;
- 90 thousand euros for costs related to the implementation and development of software;
- 86 thousand euros related to ongoing projects not yet completed, of which 25 thousand euros related to the purchase and implementation of the software for processing the consolidated financial statements, and the remainder as implementation of current research projects (Trio and Novel food).

Investments in tangible fixed assets amount to 223 thousand euros and refer to:

- 63 thousand euros for purchases of computers, mobile phones, network hardware;
- 131 thousand euros for the purchase of cars;
- the remainder of 30 thousand euros refers to improvements made on property leased out and the purchase of various equipment.

Research and development

The R&D of the Pharmanutra Group has always been one of the main pillars which is the basis for the growth of the Group.
The work of the R&Dbegins mainly from a continuous study and a deep knowledge of both the aspects of biology, human physiology and biochemistry of nutrition along with that of medicine and pharmacology.

Everything is driven by the need to meet the needs of the market and the needs of consumers and doctors, to provide new opportunities for them and be able to tackle unresolved issues.

The Group focuses its activity of the R&Dto find new formulations, new applications, new scientific evidence, in order to continually guarantee the effectiveness and innovation of its products.

The activities of design and development and scientific research are in constant increase.
Basic research, by pre-clinical trials (in-vitro, ex-vivo and in-vivo), has borne fruits with important international publications that will be important instruments for commercial activity and represent solid pillars, providing a significant competitive advantage. Also, new important projects have been initiated, guided directly by researchers who are part of the Group.
At the same time, clinical studies are being carried out, the practical implementation of which is instead undertaken through formal collaborative relationships with clinics, hospitals, Italian and foreign research centres, depending on the skills and necessary know-how. Among these, in particular, two imposing clinical studies of an international character were launched and are constantly monitored by the personnel of the Group responsible for clinical monitoring.

The research is carried out mainly on the leading products of the group, Sideral®, Cetilar® and on proprietary raw materials. At the same time, also on all the other products. There are many studies (clinical and pre-clinical), some of which are very innovative and will facilitate the opening of new markets, others useful for strengthening existing evidence and market positioning. In the course of 2018, 15 important pre-clinical and clinical studies were published, for a total of 91 international publications. 13 clinical trials are in progress.

It is the constant activity of dissemination of the results that the Group believes is useful to publish and make available to the scientific community on the one hand, and to the commercial network from the other. Therefore, the staff of the R&Dof the Group participates in national and international congresses as speaker, or in hospital meeting events and focus groups with doctors, where the evidence and results obtained on proprietary products is demonstrated.
In particular, for the entire range of the Sideral® products, an international scientific congress is organised, accredited for various medical specialties, which annually discuss the most recent evidence obtained on the iron sucrosomial and anaemia in general. In 2018, the 6th International Multidisciplinary Course on Iron Anaemia saw the participation of over 300 doctors from 20 different countries.
Furthermore, the R&Dperiodically carries out training activities for medical sales representatives in order to transfer the characteristics and competitive advantages of the Group's products.
In close collaboration with the Group's Quality Control, it constantly guarantees the highest quality and stability of the products marketed, and works to create new finished products.
The results of the R&Dactivities allowed the launch of eight new products in the course of 2018. These are new formulations with proprietary raw materials developed internally by the R&Ddepartment, which

on the one hand widen the range in the field of sucrosomial products and, on the other hand, propose new solutions as regards nutritional supplements. The newly launched products are:

- **Capricare,**nutritionally complete formula obtained from goat's milk that offers a balanced nutritional intake.
- **Neo D3 Forte,** nutritional complement of Vitamin D3 which has excellent palatability and gastrointestinal tolerability. The Vitamin D3 present in the product intervenes in those processes that are the basis of some autoimmune and inflammatory diseases, exploiting the immunomodulatory effect of vitamin D and contributes to the optimisation of bone metabolism.
- **Sideral® Folico 30,** with which the range of products has been extended to include solutions based on sucrosomial iron, folic acid and vitamins (C, B12, B6, and D3). The new composition of 30mg is suitable for those cases where it is also necessary to integrate the iron for long periods without side effects.
- **Ultramag Idro,** an absolute novelty, a food supplement based on magnesium sucrosomial obtained using sucrosomial technology, the exclusive patent developed by the scientific department of the Group, useful for bridging food shortages or increased organic requirements.

  Ultramag, a totally Sucrosomial® magnesium based supplement, which was launched at the end of April, represents the best product launch in the history of the Pharmanutra Group with 10,000 units sold only in the first month. The data record of the market is supported not only by the scientific evidence, but also by the positive findings recorded by the medical profession, by pharmacies and by consumers themselves, which confirm that the new magnesium Sucrosomial® is particularly effective in terms of rapidity of assimilation and tolerability.

- **Sideral® H** is a new formulation of Sucrosomial® Iron powder to disperse in water, mainly intended for hospital use, often in pre and post-operative circumstances, and represents a valid alternative to more invasive treatments as intravenous martial therapy.
- **Apportal**, the first nutritional supplement complete that combines the properties of 5 minerals (iron, selenium, zinc, iodine, magnesium), in addition to vitamins, amino acids and vegetable extracts. All minerals contained in Apportal have been strengthened thanks to Sucrosomial® Technology, thus creating a unique product, with antioxidant, immunomodulating, tonic and energising, muscular properties.
- **Sideral® Forte Gocce** is the new formulation in drops, in which the dosage of Sucrosomial® Iron reaches 14mg/ml, intended for chronic states of iron deficit.
- **Sideral® Oro 14** is the new, practical size of Sucrosomial® Iron mouth dissolving stick, with a dosage that reaches 12 to 14 mg, which corresponds to 100% of the daily recommended nutritional value, useful for the prevention of iron deficiencies and asthenia amongst adolescents and the elderly.

Pursuant to Article 2428, Paragraph 2, No. 1) of the Civil Code, the following information are provided:

a) the net residue of capitalised costs incurred for development activities in previous years is equal to 26 thousand euros, and the historic cost is equal to 217 thousand euros;

b) the total amount of the costs incurred for the research and development activities charged to the income statement is equal to 354 thousand euros, to which must be added the costs of personnel for activities for research and development;

c) The reasons which underlie the capitalisation of development costs refer to the future usefulness that is deemed to be obtained from development activities. For example, the study on the bioequivalence that began in the course of 2013 by the parent company Pharmanutra Spa and is still in progress, will lead to an improvement of existing products in addition to the possibility of development of completely new products.

In the course of 2018, three applications were filed for registration of new brands; today the Group has the ownership of 10 patents, 25 brands and has 13 proprietary raw materials. In the face of this dynamism, and in perfect harmony with the strategic guidelines of intervention implemented in terms of state incentives to support the transformation process of Italian companies, Pharmanutra and Alesco have decided to start with the exercise of the option, starting from the tax period 2015, the procedure to get to a system of facilitated taxation referred to in Article 1 Paragraphs 37-45 Law No.190/2014 and subsequent amendments and additions. (the so-called “Patent box”) for income accruing from the exploitation of certain intangible assets falling within the framework of application of the rule; by registering in this respect, in the course of 2017 and 2018, the conduct of prior agreement procedure (the so-called “Ruling”) with the Revenue Agency, which has still not been perfected, but with respect to which there is confidence that a successful conclusion will be reached in the course of the current year.

The benefit represented by the special tax credit under Article 3 of Legislative Decree No.145/2013 is fully usable, from the activities carried out and the investments made in 2015, in accordance with the terms and modalities referred to the Ministerial Decree 27/05/2015 and subsequent modifications, in view of the research and development activities conducted by Pharmanutra and Alesco that qualify as eligible for the purposes of calculating the facilitation in question. The process of analysis and determination of the tax credit has occurred in the course of 2018 for the years 2015-2017. The total tax credit amounts to 1,298 thousand euros, of which 820 thousand euros relate to tax credit reported in 2015-2017 financial years.

The role played by research and development activities within the framework of the global objectives of the company and in the results that we aim to achieve, is to maintain the highest levels of the degree of quality and innovation of the products offered to customers. Only through constant work of research and development of products offered will be possible to provide the customers with ever new solutions with high scientific content and maintain at the same time a high competitive advantage over the competition.

On 5th February 2018, Pharmanutra received from the Italian Office for Patents the concession for the patent of Cetilar® RM (number 102015000044822). Requested in 2015, the patent will be valid for 20 years and will expire in 2035. This is a cetylated ester-based cream (7.5% CFA), intended mainly for sportsmen and women who do not want to give up sport because of discomfort or muscle articular problems. Available also in the Patch version, Cetilar® helps the ability of movement in articular illnesses on an osteoarthritis basis, thus reducing the painful symptomatology at musculoskeletal level and helping the recovery of mobility and rehabilitation resulting from articular and/or muscle inflammatory phenomena and sport injuries. The confirmation of the grant of the patent represents the culmination of years of studies and scientific research carried out by the Pharmanutra Group as an excellence in the Italian nutraceutical sector.

Marketing activities

During 2018, the activities initiated during 2017 for the Cetilar® brand were confirmed and implemented with the aim of increasing brand awareness, supporting the sales network and encouraging pharmacy store traffic.

The planning has combined a wide coverage of the target, through a media mix articulated on the following channels: TV vertical sport, Search and web display banners and with the use of a Data Management Platform, a media mix articulated and very effective.

The flight at high frequency with short formats, columns dedicated to football and Motor Sport with focus on the ELMS and 24 H of Le Mans races. In 2018, the media plan was extended further compared to the previous year, with the introduction of three new group brands: Sideral® Folic 30, UltraMag and Capricare. The media plan is confirmed as a strategic asset to support the sales network, particularly in the sell-IN phase inside pharmacies, highlighting the first feedback also in the b2c area.

Main Partnership

The partnership as the main sponsor of Parma Football Club 1913 is of great satisfaction, with a contract signed in 2017, after a collaboration as Medical Partner for eight years, that today sees the brand Cetilar® as title sponsor of the team in Serie A.

Inside the running events, the Group sponsors 7 major sporting events. Of these, in two such as Cetilar Pisa Half Marathon and the Cetilar Run – Parma, as the main sponsor.

In the context of Motorsport, the strong presence and visibility is confirmed within the Endurance as main brand of Cetilar Racing team with participation in the Italian stage ELMS, the historic 24H of Le Mans and as big news at the WEC 2019-2020.

In sailing, the Cetilar brand is present as the main sponsor of the event 151 Miles Trofeo Cetilar, and in Melges 40. Also the Brand Sideral® has been displayed with success by the Vitamina Team in the M32 Series.

Points of sale

An investment is envisaged for Network support on the whole national territory to supply the pharmacies with communication materials and displays. This investment will increase the visibility of the products and create an immediate link with the activities of external communication at the point of sale.

Operations between Group companies

The transactions between group companies, all concluded under normal market conditions, concern the provision by Alesco of the main active ingredients, the payment by Pharmanutra to Alesco of royalties for the exploitation of the patent for the technology of sucrosomial iron, and chargeback of personnel between the companies of the Group. In the course of 2018, Alesco invoiced the parent company for 1,477 thousand euros of raw materials, 885 thousand euros of royalties and 140 thousand euros of chargeback of personnel costs. To Junia Pharma Alesco, it invoiced 159 thousand euros of raw materials and charged back personnel costs for 62 thousand euros. The parent Pharmanutra invoiced to Alesco and Junia Pharma respectively 40 thousand euros and 76 thousand euros chargeback of personnel costs. At 31/12/2018, receivables of Alesco toward Junia Pharma amounted to 117 thousand euros and toward Pharmanutra to 1,339 euros. Receivables to Pharmanutra owed by Junia Pharma and Alesco are respectively equal to 40 thousand and 108 thousand euros.

Treasury shares and shares/stakes in parent companies

The company Pharmanutra S.p.A. as at 31/12/2018, holds no treasury shares.

Financial risk management objectives and policies

The objectives and policies of the company in the field of management of the (limited) financial risk are showed in the following table.

We inform you that, for the purposes of the following information, commercial receivables and payables have not been considered, the totality of which has a contractual expiration not exceeding 18 months.

Financial instruments	**Risk management policy**
Bank accounts and post office deposits	Not at risk
Cheques	The risk is managed through a careful policy of selection of creditors who are granted the possibility of paying by bank cheques
Cash in hand	Not at risk

Receivables from shareholders	Not at risk
Financial Instruments (Securities)	The risk is managed through a careful policy of selection of the securities held

Information pursuant to Article 2428, Paragraph 2, Points 6-bis of the Italian Civil Code

Pursuant to Article 2428, Paragraph 2, point 6-bis of the Italian Civil Code, information relating to the use of financial instruments is detailed below as such information is relevant for the purposes of measuring the company's balance sheet and financial position.

More precisely, the objectives of the company management, policies and the criteria used to measure, monitor and control the financial risks are the following:

Credit risk

As regards the credit risk, reference is made to what has been set forth in the specific paragraph of the notes to the financial statements.

Liquidity risk

As regards the risk of liquidity, reference is made to what has been set forth in the specific paragraph of the notes to the financial statements.

Interest Rate Risk

As regards the interest rate risk, reference is made to what has been set forth in the specific paragraph of the notes to the financial statements.

Market risk

It is believed that this risk, for the company in question, continues to be deemed low-level.

The risk of variation in the cash flows

As regards the risk of variation in the cash flows, reference is made to what has been set forth in the specific paragraph of the notes to the financial statements.

Foreign exchange rate risk

The Group carries out transactions in currencies other than the euro in a very limited manner and therefore we believe that this risk is deemed low.

Risk related to disputes

As regards the risk related to disputes, reference is made to what has been set forth in the specific paragraph of the notes to the financial statements.

Secondary offices

The Company has no secondary offices.

Relationship with personnel

One of the primary objectives of the Group, which is a crucial factor for the efficient and sustainable development of its activities, remains the growth, in terms of training and professional enrichment, of its human resources. The level of skills and knowledge acquired, the daily search for excellence in our work are an asset that we intend to preserve and increase.

It is acknowledged that in the current financial year, as in the past, no deaths have occurred in the work of personnel registered in the employee register, nor have any serious injuries been recorded or charges made for occupational diseases to employees or former employees and causes of mobbing.

As at 31/12/2018, the employees of the Group amounted to 48 persons (42 in the previous year).

Environmental Impact

The commitment to matters of social responsibility and the local area has long been an integral part of the principles and of the conduct of the companies of the Group aimed at maintaining high levels of safety, environmental and energy efficiency as well as training, awareness and involvement of the personnel in matters of social responsibility. It is acknowledged that in the current financial year, as in the past, no damage has been caused to the environment for which companies of the Group have been declared definitively liable.

Significant events after the closure of the financial year

In the months of January and February, distribution agreements were signed that extend the range of products of the Sideral® line in Greece and Ukraine and an agreement for the distribution of products of the same line in Pakistan.

Business outlook

In the course of 2019, the strategy of Pharmanutra will essentially consist of strengthening its leadership position in the market for oral iron, where it already holds today a market share of approximately 50% thanks to the brand products Sideral®, and an increase market share even as regards Cetilar® brand products. In this perspective, a reorganisation of the sales network is underway with the aim of achieving a greater focus on the business lines.

Particular attention will be paid to international development, with specific reference to the European, Asian and US markets. It is planned to expand the range of products sold in the countries where the

Group is already present and to open new markets, possibly resorting to corporate partnerships, if deemed strategically relevant.

Quality management system

The companies in the group have the following quality certifications:

- Pharmanutra and Junia Pharma: Social Accountability 8000:2014 conferred by DNV GL;

- UNI ISO 9001:2015 conferred by SGS Italia.

We would like to thank for your confidence in us.

Pisa, 12th March 2019

For the Board of Directors

The President

(Andrea Lacorte)

FINANCIAL STATEMENTS

Pharmanutra Group - Consolidated balance sheet

BALANCE SHEET	Notes	31/12/2018	31/12/2017
NON-CURRENT ASSETS		**7,317,507**	**6,805,366**
Property, plant and equipment	7.1.1	965,695	1,132,712
Intangible fixed assets	7.1.2	4,729,133	4,424,970
Investments	7.1.3	253,700	253,700
Non-current financial assets	7.1.4	208,280	312,770
Other non-current assets	7.1.5	671,213	337,973
Pre-paid tax	7.1.6	489,485	343,241
CURRENT ASSETS		**34,156,117**	**26,601,941**
Inventory	7.2.1	2,149,425	1,878,498
Cash availability	7.2.2	14,968,178	14,056,376
Current financial assets	7.2.3	864,601	-
Trade receivables	7.2.4	12,977,053	10,084,201
Other current assets	7.2.5	1,670,931	406,065
Tax credits	7.2.6	1,525,928	176,801
Assets held for sale		**-**	**-**
TOTAL ASSETS		**41,473,624**	**33,407,307**
INCOME STATEMENT	**Notes**	**31/12/2018**	**31/12/2017**
NET EQUITY	7.3.1	**24,442,354**	**19,098,331**
Share capital		1,123,098	1,123,098
Legal reserve		224,620	40,000
Other reserves		14,637,179	11,982,824
IAS 19 reserve		(7,917)	(9,006)
Investment revaluation reserve		(23,050)	-
First-time adoption reserves		(69,073)	(69,073)
Profit (loss) for the year		8,557,497	6,030,489
Third-party capital and reserves		-	-
Third-party profit (loss) for the year		-	-
NON-CURRENT LIABILITIES		**4,062,365**	**4,598,553**
Non-current liabilities	7.4.1	1,830,753	2,987,479
Risk and charges provisions	7.4.2	539,075	410,951
Benefits funds	7.4.3	1,692,537	1,200,123
CURRENT LIABILITIES		**12,968,906**	**9,710,423**
Current financial liabilities	7.5.1	3,511,399	2,627,092
Trade payables	7.5.2	6,665,918	4,860,073
Other current liabilities	7.5.3	1,787,157	1,280,656
Tax payables	7.5.4	1,004,432	942,603
Liabilities held for sale		**-**	**-**
TOTAL LIABILITIES		**41,473,624**	**33,407,307**

Pharmanutra Group- Consolidated income statement

INCOME STATEMENT	Notes	31/12/2018	31/12/2017
A) REVENUES		**48,118,617**	**37,867,223**
Net revenues	7.6.1	46,672,503	37,794,099
Other revenues	7.6.2	1,446,114	73,124
of which other non-current revenues		*820,378*	-
B) OPERATING COSTS		**35,540,643**	**28,425,758**
Purchasing of ancillary raw materials and consumables	7.7.1	2,742,892	2,539,813
Change in inventory	7.7.2	(270,927)	(778,602)
Costs for services	7.7.3	29,746,914	23,763,045
of which non-recurring costs for services		*82,038*	-
Personnel costs	7.7.4	2,801,402	2,540,283
Other operating costs	7.7.5	520,362	361,219
(A-B) GROSS OPERATING RESULT		**12,577,974**	**9,441,465**
C) Amortisation and drepreciation		661,662	582,965
(A-B-C) OPERATING RESULT		**11,916,312**	**8,858,500**
D) FINANCIAL REVENUES [COSTS]		**(62,563)**	**(88,736)**
Financial revenues	7.8.1	5,846	9,265
Financial costs	7.8.2	(68,409)	(98,001)
E) NON-RECURRING REVENUES AND CHARGES		**-**	**-**
Non-recurring revenues and charges	7.9		-
PRE-TAX RESULT (A-B-C+D)		**11,853,748**	**8,769,764**
Taxes	7.10	(3,296,250)	(2,739,275)
Profit/loss of third-party		-	-
Profit/loss of the group		**8,557,497**	**6,030,489**

Pharmanutra Group - Comprehensive consolidated income statement

COMPREHENSIVE INCOME STATEMENT		31/12/2018	31/12/2017
PROFIT (LOSS) FOR THE YEAR		8,557,497	6,030,489
IAS profit (loss)		(18,753)	(23,489)
COMPREHENSIVE PROFIT (LOSS)		**8,538,744**	**6,007,000**

Pharmanutra Group - Changes in net equity

	Share capital	Legal reserve	Other reserves	Actuarial reserve IAS 19	Investment revaluation reserve	First time adoption reserve	Profit(loss) for the year.	Balance
Net equity of the Group as at 31/12/2017	1,123,098	40,000	11,982,824	(9,006)		(69,073)		19,098,331
Allocation of result		184,620	5,845,869				(6,030,489)	0
Distribution of dividents			(3,194,722)					(3,194,722)
Effect changes consolidation area								0
Increase share capital and share premium	0		0					0
Other changes			3,208	1,089	(23,050)			(18,753)
Profit (loss) for the year							8,557,497	8,557,497
Net equity of the Group as at 31/12/2017	**1,123,098**	**224,620**	**14,637,179**	**(7,917)**	**(23,050)**	**(69,073)**	**8,557,497**	**24,442,354**

Pharmanutra Group - Consolidated financial statement (indirect method)

	31/12/2018	31/12/2017
Net result before third-party interest	8,557,497	6,030,489
NON-MONTARY COSTS/ REVENUES		
Depreciation of fixed assets and impairment	661,662	582,965
Provisions for employee benefits fund	148,527	112,949
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Changes risks and charges fund	128,124	119,488
Changes employee benefits fund	343,887	327,549
Changes in inventory	(270,927)	(781,026)
Changes trade receivables	(2,892,852)	(1,348,140)
Changes other current assets	(1,264,866)	(46,046)
Changes tax credits	(1,349,127)	49,050
Changes other current liabilities	506,501	596,937
Changes trade payables	1,805,845	662,920
Changes tax payables	61,829	(600,849)
CASH FLOW OPERATING MANAGEMENT	**6,436,100**	**5,706,287**
Net investments in tangible and intangible fixed assets	(798,809)	(931,543)
Net investments in financial fixed assets	0	0
(Increases)/decreases financial assets - securities	(0)	(3,700)
(Increases)/ decreses other non-current assets	(479,483)	(483,636)
Increases (decreases) other non-current liabilities	0	0
CASH FLOW INVESTMENTS MANAGEMENT	**(1,278,293)**	**(1,418,879)**
Increase share capital with share-premium	0	8,573,098
Increase/ (decrease) own capital	(18,753)	(473,516)
Monetary flow of dividend distribution	(3,194,722)	(1,686,400)
(Increases)/ decreses current financial assets	(1,156,725)	1,298,804
Increases (decreases) non-current financial assets	(864,601)	0
Increases (decreases) non-current financial assets	104,489	6,120
CASH FLOW LOAN MANAGEMENT	**(5,130,312)**	**7,718,106**
TOTAL CHANGES IN LIQUIDITY	**27,496**	**12,005,513**
Cash availability net of current financial liabilities at beginning of year	**11,429,283**	**(576,230)**
Cash availability net of current financial liabilities at year-end	**11,456,779**	**11,429,283**
Total cash availability	14,968,178	14,056,376
Total current financial liabilities	3,511,399	2,627,092
Cash availability net of current financial liabilities at year-end	**11,456,779**	**11,429,283**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE PHARMANUTRA GROUP

1. FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements at 31st December 2018 have been drawn up in accordance with the evaluation and measurement criteria contained by the *International Financial Reporting Standards* (IFRS) issued by the *International Accounting Standards Board* (IASB) and adopted by the European Commission.

The date of the consolidated financial statements coincides with the date of the closure of the financial statements for the financial year of the parent company and the subsidiaries.

The following classifications have been used:

- The Balance Sheet for current/non-current items;
- The income statement for nature;
- Cash Flow Statement indirect method.

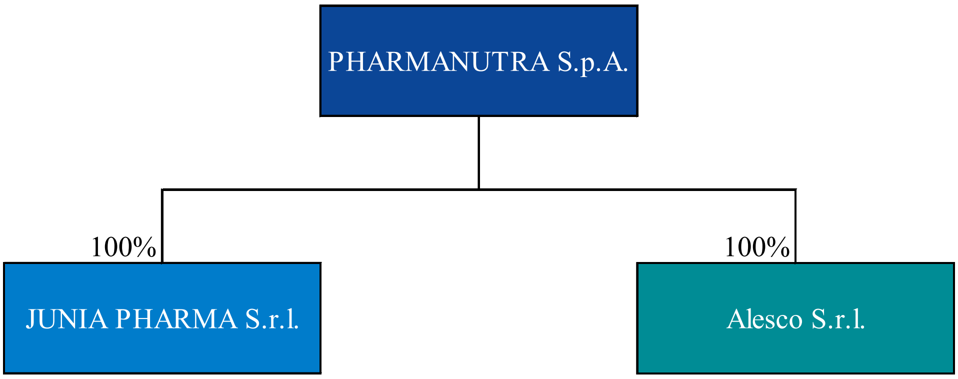
It is believed that such classifications provide information better suited to represent the balance sheet, economic and financial situation of the company.

The functional currency of the Parent Company and the presentation of the consolidated financial statements is the Euro. Prospectuses and tables contained in this explanatory note are shown in thousands of euros.

These consolidated financial statements have been prepared using the standards and evaluation criteria set out below.

2. CONSOLIDATION AREA

Pharmanutra S.p.A. (hereinafter also "Pharmanutra" or the "Parent company") is a company with headquarters in Italy, in Via delle Lenze 216/B, Pisa, that holds controlling stakes in the whole company (the "Group" or even "Pharmanutra Group") shown in the following scheme:



Subsidiaries are companies in which Pharmanutra has the power to determine administrative and management decisions; generally, there exists control when the Group holds more than half the voting rights, or exercises a dominant influence in the corporate and operational choices of the same.

Associated companies are those in which Pharmanutra exerts significant influence even though it does not have control; generally it occurs when between 20% and 49% of voting rights are held.

The companies included in the area of consolidation are the following:

COMPANY	REGISTERED OFFICE	Direct control	Ind. control	TOTAL
Pharmanutra S.p.A.	Pisa, Via delle Lenze 216/b	PARENT COMPANY		
Junia Pharma S.r.l.	Pisa, Via delle Lenze 216/b	100%	0%	100%
Alesco S.r.l	Pisa, Via delle Lenze 216/b	100%	0%	100%

2.1 CHANGES IN BASIS OF CONSOLIDATION

The consolidation area has not changed with respect to the previous financial year.

3. CRITERIA AND METHODS OF CONSOLIDATION

The consolidation has been carried out with the method of global integration which consists in incorporating all items of assets and liabilities in their entirety. The main consolidation criteria applied are as follows:

- subsidiaries are consolidated from the date on which control is effectively transferred to the Group and are deconsolidated from the date on which control is transferred out of the Group;
- if necessary, adjustments are made to the accounts of companies controlled to align the accounting policies used to those adopted by the Group;

- the assets and liabilities, charges and income of consolidated companies with the method of global integration are assumed in full in the consolidated financial statements; the book value of the stakes is eliminated against the corresponding portion of the equity of the investee companies, attributing to their individual assets and liabilities the current value at the date of acquisition of control. The possible residual difference, if positive, is entered under the heading of the asset item "Goodwill"; if negative, to the income statement;
- The balances of receivables and payables, as well as the economic effects of intercompany transactions and dividends approved by the consolidated companies, have been fully eliminated. The consolidated financial statements do not include any profits or losses not yet realised by the Group as a whole as they derive from intercompany transactions. The shares of equity and the results of the period of the minority members are presented separately in equity and in consolidated income statement.

4. ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The consolidated financial statements of the Group Pharmanutra at 31st December 2018 has been prepared in compliance with international accounting standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. The IFRS are also understood to be all of the reviewed international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

The consolidated balance sheet is drawn up on the basis of the historical cost principle, amended as required for the assessment of certain financial instruments as well as in the context of the continuation of the business.

Given below is a description of the of the most significant accounting standards adopted for the preparation of the consolidated financial statements of Pharmanutra as at 31st December 2018, unchanged from those used in the previous financial year.

TANGIBLE FIXED ASSETS

Tangible assets are entered in the purchase price or production cost including ancillary costs of direct charge needed to make the activities available for use.

Tangible assets are depreciated systematically for the same amount over their useful life taken as an estimate of the period in which the asset will be used by the company. When the tangible asset consists of several significant components with different useful lives, the depreciation is carried out for each component. The value to be depreciated is represented by the book value reduced by the presumable net transfer value at the end of its useful life, if significant and reasonably determinable. Land is not depreciated (elements with an indefinite useful life), even if purchased together with a building as well as tangible assets held for sale which are valued at the lower value between the book value and their *fair value* net of costs of disposal.

Costs for improvements, modernisation and transformation that increase the value of tangible assets are recognised as assets; all other repair and maintenance costs are recognised in the income statement when they are incurred.

The recoverability of the book value of tangible fixed assets is verified by adopting the criteria indicated in the section “Impairment of assets”.

Depreciation reflects the financial and technical deterioration of the asset and begins when the asset becomes available for use; it is calculated according to the linear model using the rate deemed representative of the estimated useful life of the asset.

The rates applied are as follows:

- Equipment 25%
- Plant and machinery 20%
- Furniture and fittings 20%
- Electronic office equipment 20%
- Motor vehicles 25%

The residual book value, the useful life and depreciation criteria are reviewed at the end of each financial year and suitably adjusted if necessary.

An asset is eliminated from the financial statements at the time of sale or when there are no future economic benefits expected from its use or disposal. Any loss or profit (calculated as the difference between the net proceeds of the sale and the book value) is included in the income statement at the time of the said elimination.

INTANGIBLE ASSETS

Intangible assets are assets without an identifiable physical substance which are under the control of the company and capable of producing future economic benefits as well as goodwill when acquired for valuable consideration.

Identifiability is defined with reference to the possibility of distinguishing the intangible asset acquired from the goodwill; this requirement is fulfilled, as a general rule, when:

- the intangible asset is attributable to a legal right or contract, or
- the asset is separable, i.e., can be sold, transferred, rented out or exchanged autonomously, or as an integral part of other activities; the control of the company consists in the power to obtain the future economic benefits arising from the activities and in the possibility of limiting access of it to others.

Intangible assets are stated at the cost determined according to the criteria indicated for tangible assets.

Intangible assets with a defined useful life are amortised systematically over their useful life taken as an estimate of the period for which the assets will be used by the company; the recoverability of their book value is verified by adopting the criteria indicated in the section "Impairment of assets".

Goodwill and other intangible assets, where present, having an indefinite useful life are not subject to amortisation; the recoverability of their book value is checked at least annually, and in any case when events occur that suggest a reduction of the value. With reference to the goodwill, verification is carried out at the level of the smallest aggregate on the basis of which the management assesses, directly or indirectly, the return on investment that includes the goodwill itself (*cash generating unit*). The impairment may not be revaluated.

Other intangible assets have been amortised to 20%, by estimating a useful life of 5 years with the exception of patents, trademarks and licenses that are amortised by reason of a useful life of 18 years.

The amortisation period and the criteria of amortisation of intangible assets with a defined useful life are reviewed at least each financial year end and adjusted prospectively if necessary.

SHAREHOLDINGS

Business combinations are recognised in accordance with the acquisition method (IFRS 3).

The cost of an acquisition is valued as the sum of the consideration transferred measured at fair value on the acquisition date and the amount of any minority stake in the item acquired. For each business combination, any minority stake in the item acquired must be measured at fair value or in proportion to the portion of the minority stake in the identifiable net assets of the item acquired. Acquisition costs are expensed and classified in administrative expenditure. If the business combination is achieved in stages, the fair value of the stake previously held is recalculated at fair value at the acquisition date, noting in the income statement the profit or loss resulting. Goodwill is initially measured at the cost that emerges as the difference between the sum of the consideration paid and the amount recognised for the minority shares in relation to the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement. After initial recognition, goodwill is valued at cost net of accumulated impairment losses. For the purpose of impairment testing, the goodwill acquired in a business combination shall, on the acquisition date, be allocated to each of the Group's cash generating units expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units. If the goodwill has been allocated to a cash-generating unit and the entity disposes of part of the assets of this unit, the goodwill associated with the operation disposed of must be included in the carrying value of the asset when determining the profit or the loss deriving from the disposal. The goodwill associated with the asset disposed of must be determined on the basis of the relative values of the asset disposed of and of the part maintained by the cash generating unit.

Thus, in particular, investments in subsidiaries are valued at purchase, subscription or contribution cost, written down in the event of a permanent loss of value; the original value is reinstated in subsequent years if the reasons for the depreciation no longer exist.

Investments in other companies are initially recognised at their *fair value* and thereafter, if it is not possible to determine a *reliable fair value*, written down in the event of permanent losses in value. The original value shall not be reinstated in subsequent years if the reasons for the depreciation no longer exist.

INVENTORIES

Inventories are recorded at the lower value between the cost of purchase or production and the realisable market value.

The method used for the valuation of inventories is the weighted average cost.

The value determined as indicated above is adjusted to take into account the obsolescence of inventories, by devaluing the inventories due within 6 months following the date of the financial statements.

CASH AND CASH EQUIVALENTS

The item relating to cash and cash equivalents includes cash, bank current accounts, deposits repayable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to an insignificant risk of change in value.

RECEIVABLES AND OTHER SHORT-TERM ACTIVITIES

Trade receivables and other short-term assets are initially registered at their fair value and subsequently measured at amortised cost net of any depreciations. At the moment of subscription the nominal value of the receivable is representative of its fair value on the date.

The bad debt provision at the date represents the difference between the book value of the receivables and the reasonable expectation of recoverability of the receivables deriving from the cash flows expected from the collection thereof, also in consideration of the historical experience and the management's forecasts regarding the future recoverability of receivables (Forward Looking Approach).

With regard to financial assets, the Group adopts the new IFRS 9 Financial Instruments accounting standard, which came into force on 1st January 2018, replacing the previous IAS 39 Financial Instruments: Recognition and Measurement as regards classification, evaluation and accounting of financial instruments.

The accounting principle provides for rules for the classification of financial assets in the following categories:

Amortised Cost;

Fair Value with variation in equity (Fair Value Other comprehensive income or FVOCI);

Fair value with changes in the income statement.

The determination of the relevant category is carried out based on 2 factors:

- The Business Model, i.e. the way in which the Group manages its financial assets or with which it intends to realise the cash flows from financial assets.

The possible Business Models envisaged by the accounting policy are:

Hold to collect (HTC): provides for the realisation of cash flows as provided for in the contract; this Business Model is attributable to financial assets that will presumably be held until their natural maturity;

Hold to collect and sell (HTC&S): provides for the realisation of cash flows as envisaged contractually or through the sale of financial assets; this Business Model is therefore attributable to financial assets that may be held to maturity or even sold;

Sell: provides for the realisation of cash flows through the sale of the instrument; this Business Model is attributable to activities in which cash flows will be realised through sales (so-called trading).

- The characteristics of the contractual cash flows of the instrument

The principle refers to the so-called SPPI test (Solely payments of principal and interest), which aims to define whether an instrument has the contractual characteristics that make it possible to pay capital and interest exclusively.

Where the SPPI test is not exceeded, regardless of the business model of reference, the financial instrument must be classified and measured at Fair Value with changes in the income statement.

The classification of an instrument is defined at the time of initial recognition and is no longer subject to change, except in cases where the principle is expected to be rare.

With reference to the financial instruments purchased during 2018 consisting of bonds issued by leading issuers, the management carried out an analysis of its management intentions of the instruments themselves and carried out the SPPI test for all the instruments in the portfolio, concluding that the business model most relevant to its management mode is the HTC&S model and that the SPPI test has been passed.

The accounting rules that IFRS 9 defines for the financial instruments of debt classified by FVTOCI are the following:

Interest income is recognised in the income statement according to the effective interest rate method, similar to what occurs for instruments at amortised cost;

Impairment write-downs (and any write-backs) are recognised in the income statement according to the rules established by IFRS 9;

The differences between the amortised cost and the fair value of the instrument are recognised in equity;

The cumulative reserve recorded under equity and relating to the debt instrument is transferred to the income statement only upon the cancellation of the asset from the financial statements.

WRITE OFF OF FINANCIAL ASSETS

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is written off when:

- the rights to receive cash flows from the asset have expired;
- the right to receive financial flows from the asset is retained but a contractual obligation has been assumed to be paid in full and without delay to a third party;
- the Group Company has transferred the right to receive cash flows from the asset and (a) has transferred substantially all the risks and rewards of ownership of the financial asset or (b) has not transferred or substantially retained all the risks and benefits of the activity, but transferred control of the same.

In cases where the Group Company has transferred the rights to receive cash flows from an asset and has neither transferred nor substantially withheld all the risks and rewards or has not lost control over it, the asset is recognised in the financial statements of the Company to the extent of its continuing involvement in the business itself.

IMPAIRMENT OF FINANCIAL ASSETS

The companies of the group check at each date of the financial statements whether a financial asset or group of financial assets has suffered a loss in value. A financial asset or a group of financial assets is to be deemed subject to impairment when based on historical experience and as a result of the forecasts regarding recoverability after one or more events have occurred after initial recognition, and this loss event can be reliably estimated on the estimated future cash flows of the financial asset or group of financial assets.

The evidence of loss of value may be represented by indicators such as financial difficulties, the inability to meet obligations, insolvency in the payment of interest or important payments which are being handled by debtors, or a group of debtors; the probability that it will fail or be the subject of another form of financial reorganisation, and where observable data indicate that there is a measurable decrease in estimated future cash flows, such as changes in contexts or in the economic conditions related to the bonds.

The management also evaluates elements such as the trend in the relevant sector of the counterparty and the financial activities and the general economic trend, and also takes in to consideration *perspective future trends*.

If there is objective evidence of an impairment loss, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of the future estimated cash flows (excluding losses of receivables expected in the future that have not yet occurred). The carrying amount of the asset is reduced through the use of a depreciation fund and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of impairment estimated increases or decreases as a result of an event which took place after the change in value was detected, the impairment previously detected must be increased or decreased by adjusting the fund to offset the income statement.

LOSSES IN THE VALUE OF NON-FINANCIAL ASSETS

At each date of the financial statements of the companies in the Group will assess the possible existence of indicators of the loss in value of non-financial assets. When events occur that suggest a reduction in the value of an activity or in cases in which an annual audit on the loss of value is required, its recoverability is verified by comparing the value with the realisable value, represented by the greater of its fair value, less the selling costs and its value in use.

In the absence of a binding sale agreement, the fair value is estimated on the basis of values expressed in an active market, from recent transactions, or on the basis of the best information available to reflect the amount that an company could obtain from the sale of the asset.

The value in use is determined by discounting the cash flows expected to arise from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life. Cash flows are determined on the basis of reasonable and documentable assumptions representative of the best estimate of the future economic conditions that will occur in the residual useful life of the asset, giving greater importance to external indications. The discounting is carried out at a rate that takes into account the risk implicit in the business sector.

The valuation is carried out for each individual asset or for the smallest identifiable group of assets that generates independent incoming cash flows deriving from continuous use (the so-called cash generating unit).

When the reasons for the impairment made cease to apply, the assets, except for goodwill, are revalued and the adjustment is booked to the income statement as a revaluation (restoration of value). The revaluation is carried out at the lower value between the recoverable value and the book value gross of the previous write-downs and reduced by the amortisation quotas that would have been allocated if the write-down had not been made.

FINANCIAL LIABILITIES

Financial liabilities that fall within the scope of IFRS 9 are classified as financial liabilities at amortised cost or fair value recognised in the balance sheet, as financial payables, or as derivatives designated as hedging instruments, depending on the case. The financial liabilities of the Companies of the group include trade and other payables, funding and financial derivatives. The Companies of the group determine the classification of their financial liabilities on initial recognition.

Financial liabilities are initially measured at their fair value equal to the consideration received on the date of regulation to which is added, in the case of financial payables, transaction costs directly attributable to them.

Subsequently, non-derivative financial liabilities are measured with the amortised cost criterion using the effective interest rate method.

The amortised cost is calculated by detecting any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortisation at the effective interest rate is included in the financial charges in the income statement.

Profits and losses are recorded in the income statement when the liability is extinguished, as well as through the amortisation process.

A financial liability is derecognised when the underlying obligation is expired, cancelled or discharged.

EMPLOYEE BENEFITS

Severance Indemnity falls within the scope of those defined by IAS 19 as defined benefit plans in the context of post-employment benefits. The accounting treatment envisaged for these forms of remuneration requires an actuarial calculation that allows the amount of employee severance pay already accrued to be projected into the future and updated to take into account the time that will pass before the actual payment.

The actuarial valuation of the employee severance pay was carried out in a closed group, i.e., no new employment was considered during the reference time horizon (the same period as that envisaged for the exit of all employees from the Company).

With reference to the aforementioned international accounting standards, the actuarial simulations were performed according to the accrued benefits method using the Projected Unit Credit Method, determining:

- the cost related to the service already rendered by the employee (Past Service Liability);
- the cost related to the service rendered by the employee in the course of the financial year (Service Cost);
- the cost of the interest expense arising from actuarial liabilities (Interest Cost);
- actuarial gains/losses relating to the valuation period elapsed between one valuation and the next (Actuarial (gain)/loss).

The projected unit credit method provides that the costs to be incurred in the year for the establishment of the employee severance pay shall be determined based on the share of the benefits accrued in the same year. According to the method of the benefits accrued, the obligation in relation to the employee is determined on the basis of work already undertaken on the valuation date and on the basis of the salary reached at the date of the termination of the employment relationship (only for companies with an average number of employees in the year 2006 less than 50 persons).

In particular:

- the Past Service Liability is the present value calculated in a demographic - financial sense of the services due to the employee (payments of employee severance pay) deriving from seniority matured;
- the Current Concern provision is the value of the employee severance pay fund in accordance with the Italian accounting principle at the date of evaluation;
- the Service Cost is the present value calculated in the demographic sense - financial benefits accrued by the worker in the course of only the financial year in closure;

- the Interest Cost represents the cost of the liabilities arising from the passage of time and is proportional to the rate of interest used in the assessments and the amount of the liability to the previous year;
- the actuarial (Gain)/Loss measures the variation in the liability occurring in the period considered generated by:
- deviation between the assumptions used in calculation models and the actual dynamics of quantities subject to verification;
- changes in assumptions recorded in the period taken into consideration.

In consideration also of the evolutionary character of the fundamental economic variables, the actuarial assessments have been carried out in "dynamic" economic conditions; such an approach requires economic-financial assumptions able to summarise in the medium-long period:

- the variations in the annual average rates of inflation in respect of expectations relating to the macroeconomic situation in general;
- the trend of interest rates expected in the financial market.

PROVISIONS FOR RISKS AND CHARGES

The provisions for risks and charges relate to costs of a determined nature and of certain or probable existence which at the closing date of the financial year are indeterminate in the amount or of the date of occurrence. Provisions are recognised when:

- the Group has an existing (legal or constructive) obligation arising from a past event;
- it is probable that the fulfilment of the obligation is onerous;
- the amount of the obligation can be reliably estimated.

Provisions are stated at the value that represents the best estimate of the amount that the company would reasonably pay to settle the obligation or to transfer it to a third party at the date of closure of the period.

CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

Financing are evaluated initially at cost, net of ancillary costs of acquisition of the financing.

After initial recognition, financing are recognised on the basis of amortised cost. The financing are classified under non-current and current liabilities depending on whether or not the Group has the unconditional right to defer the settlement of this liability by at least 12 months after the reference date.

TRADE PAYABLES

Trade payables are recognised at nominal value.

INCOME TAXES

Taxes for the period represent the aggregate amount of current, prepaid and deferred taxes .

Current taxes are calculated on the basis of estimated taxable income for the year. Taxable income differs from the results reported in the income statement because it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible.

The liability for current taxes is calculated using the rates in force or in effect at the date of the financial statements.

Passive deferred tax liabilities and prepaid taxes are determined on the basis of all the temporary differences that emerge between the accounting values of the assets and liabilities in the financial statements and the corresponding values recognised for tax purposes.

Prepaid tax assets on tax losses as well as on temporary differences are recognised to the extent that it is probable that future taxable income will be available against which these can be recovered.

Deferred tax assets and liabilities are determined using the tax rates that are expected to be applied in the periods in which the temporary differences will be realised or settled.

The carrying amount of prepaid taxes is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the recovery of these assets in whole or in part.

Deferred taxes are charged directly to the income statement, with the exception of those relating to items recognised directly in equity, in which case the relevant prepaid taxes are also recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Currency conversion criteria

Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are converted into the functional currency at the exchange rate at the date of the financial statements.

Exchange differences are recognised in the income statement, including those realised when receivables are collected and payables are paid in foreign currency.

The profit or loss that emerges from the conversion of non-monetary items is treated consistently with the recognition of profits and losses related to the change in the fair value of the aforementioned items (i.e. the exchange differences on the items whose variation in fair value is recognised in the statement of comprehensive income or in the income statement, respectively, recorded in the statement of comprehensive income or in the income statement).

RECOGNITION OF REVENUES

Revenues are accounted for on an accruals basis, regardless of the date of collection and payment, net of returns, rebates, and bonuses.

The revenues from the sale of products are recognised at the time of the transfer of all risks and liabilities arising from the ownership of the assets transferred that coincides with their dispatch or delivery.

Revenues for the provision of services shall be entered in the financial statements at the moment in which the service is actually provided.

Financial revenues are recorded on an accrual basis. For all financial instruments valued at amortised cost, interest income is recognised using the effective interest rate (TIE), which is the rate that accurately discounts future payments and collection, estimated through the expected life of the financial instrument.

RECOGNITION OF COSTS

Costs are recognised when the related goods and services purchased and/or received in the course of the period.

Service charges are recognised on an accrual basis.

For all the financial instruments measured at amortised cost, passive interests are recognised using the effective interest rate, that is the rate that exactly discounts future payments and receipts, estimated through the expected life of the financial instrument.

4.1 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS IFRS APPROVED OR APPLICABLE/APPLIED FROM 1ST JANUARY 2018

4.1.1 Approved Accounting standards and interpretations in force as from 1st January 2018

- New Standard and/or changing IFRS 9 – Financial Instruments.

The standard represents part of a process by phases that aims to entirely replace IAS 39 and introduces new criteria, both for the classification and measurement of financial assets and liabilities, and for the accounting of hedging instruments (“hedge accounting”).

- IFRS 15 - Revenues from contracts with customers

The standard, which replaces IAS 18 – Revenues and IAS 11 – Work to order, requires the use of a new five-phase model to record revenues from contracts with customers.

- Amendment to IFRS 2 – Share-based Payment.

The amendment clarifies the basis of measurement for payments based on cash-settled shares and the accounting treatment of changes to an incentive plan if it is regulated by cash and regulated by capital instruments.

- The annual cycle of improvements to IFRSS 2014-2016.

The following have been amended:

IFRS 1 – First-time adoption of International Financial Reporting Standards;

IAS 28 – Investments in associates and joint ventures.

- Amendment to IAS 40 – Investments in property: transfers of property investments.

The amendment clarifies that transfers that affect the category of property investments must be motivated by a change of intended use.

- Interpretation IFRIC 22 – Foreign currency transactions

This interpretation addresses the accounting treatment of transactions denominated in foreign currency or parts of transactions whose payment is denominated in a foreign currency.

4.1.2 International accounting standards and/or interpretations issued but not yet in force and/or approved

As required by IAS 8 "Accounting standards, changes in accounting estimates and errors", the following are the new standards or interpretations already issued but not yet entered into force or not yet approved by the European Union at 31st December 2018 and therefore not applicable.

None of these standards or interpretations have been adopted by the Group in advance.

- IFRS 16 – Leases

  On 31st October 2017, the EU Regulation n. 2017/1986 was issued that has implemented at EU level the IFRS 16 (Leasing). IFRS 16 replaces IAS 17 (Leases) and the related Interpretations (IFRIC 4 Determining whether an arrangement contains a lease; SIC 15 Operating leasing - Incentives, SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease). IFRS 16 shall be applied retrospectively from 1st January 2018.

  On the basis of the provisions of IFRS 16, the accounting representation of passive leasing contracts (which do not constitute services) takes place through the entry in the balance sheet of a liability of a financial nature, represented by the present value of future lease payments, against the registration in the assets of the “right of use of a leased asset”.

Lease liabilities, already previously classified according to IAS 17 as finance leases, shall not undergo any modification with respect to the current accounting representation, in full continuity with the past.

In the first application for the leasing previously classified according to IAS 17 as operating leases, the Group intends to apply the retrospective simplified method with the detection of financial liability for lease contracts and the corresponding value of the right of use measured on residual contractual fees at the date of transition.

In the Group, contracts that fall within the scope of IFRS 16 relate mainly to:

- Lease of buildings

With reference to options and exemptions provided for by IFRS 16, the Group shall adopt the following choices:

- the IFRS 16 is not generally applied to intangible assets, to contracts of short duration (i.e. less than 12 months) and of low unit value;
- the rights of use and financial liabilities relating to leasing contracts are classified in specific items in the financial position and balance sheet;
- any component relating to the provision of services included in the lease payments is generally excluded from the scope of IFRS 16;
- the contracts with similar characteristics are evaluated using a single discount rate;
- the leasing contracts previously evaluated as finance leases under IAS 17 maintain the values previously entered.

The main impacts on the consolidated Group financial statements, still in the course of assessment and refinement, are thus summarised:

- Equity and financial situation: greater non-current assets for the recognition of the “right to use the leased asset” in exchange for higher liabilities of a financial nature; consequently, a lease payable of approximately 830 thousand euros is expected upon transition.
- Separate income statement: different nature, qualification and classification of expenses, with the recording of “Amortisation of the right to use the asset” and “Financial charges for interest”, instead of the “Costs for the use of third party assets - operating lease instalments”, as per IAS 17, with a consequent positive impact on the EBITDA of approximately 229 thousand euros per year on a like-for-like basis.
- Cash Flow Statement: payments of lease payments for the share capital of repayment of the payable will be reclassified from “cash flow from operating activities” to “cash flow from

financing activities".

The impacts are based on the findings of the analysis at the date of preparation of these financial statements and may change as the implementation process is still in progress. The impacts during the transition are not indicative of future developments, as the capital allocation choices could change with consequent economic-equity repercussions on the recognition in the financial statements.

- IFRIC 23 – Uncertainty about the treatment of taxes on income

This interpretation provides indications on how to reflect in the accounting of income taxes the uncertainties on the tax treatment of a given phenomenon.

This interpretation, which entered into force on 1st January 2019, has been approved by the European Union in the month of October 2018. The impact of this interpretation on the Group financial statements is currently being analysed.

- Amendments to IAS 28 – Stakes in associates and joint ventures: Long-term interests in associates and joint ventures.

These amendments have clarified that, if the stakes in associates and joint ventures are not valued using the equity method (IAS 28), these must be valued in accordance with the requirements of IFRS 9.

These changes, whose entry into force is established on 1st January 2019, were approved by the European Union in the month of January 2019. No impacts are expected on the Group's financial statements, in the absence of investments in associates and joint ventures.

- "Improvements" with IFRS 2015-2017 cycle (issued by the IASB in December 2017)

The IASB has issued a series of amendments to 4 standards in force, which relate in particular to the following aspects:

1. IFRS 3 - business combinations: obtaining control of a business that is classified as a joint operation must be accounted for as a business combination to phases and the stake previously held must be remeasured at fair value at the date of acquisition.
2. IFRS 11 - Joint arrangements: In the case of obtaining the joint control over a business that is classified as a joint operation, the stake previously held must not be remeasured at fair value.
3. IAS 12 - taxes: the accounting treatment of the tax effects of dividends on financial instruments classified as equity should follow that of transactions or events that have generated the distributable dividend.
4. IAS 23 - financial charges: in the case where a specific financing on a qualifying asset is still outstanding at the time in which the asset is ready for use or sale, it becomes part of the general financing.

These changes, whose entry into force is established on 1st January 2019, have not yet been endorsed by the European Union. The possible impacts on the Group financial statements are currently being analysed.

- IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The IASB published Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) with which clarifies how to determine the pension costs when an amendment occurs to the defined benefit plan.

These changes, whose entry into force is established on 1st January 2019, have not yet been endorsed by the European Union. The possible impacts on the Group financial statements are currently being analysed.

5. MAIN ESTIMATES ADOPTED BY THE MANAGEMENT

The application of the generally accepted accounting standards for the preparation of the financial statements requires that the company management make accounting estimates based on complex and/or subjective judgments, on past experience and hypotheses considered reasonable and realistic on the basis of the information known at the time of the estimate.

The use of these accounting estimates affect the values of assets and liabilities and the information on potential assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs in the reference period. The ensuing results may differ from those estimates, due to the uncertainty that characterises the hypotheses and the conditions on which the estimates are based.

The following are the critical accounting estimates of the process of preparing the financial statements because they involve a high recourse to subjective judgments, assumptions and estimates relating to issues that are by their nature uncertain. Changes in the conditions underlying the opinions, assumptions and estimates adopted may have a major impact on future results.

- *Estimates adopted in the actuarial calculation for the purpose of determination of benefit plans defined in the context of the post-employment benefits*

The evaluation of liabilities for employee severance pay was performed by an independent actuary on the basis of the following assumptions:

Demographic assumptions:

- The probability of death, have been deduced from the Italian population breakdown by age and gender revealed by ISTAT in 2000 and reduced by 25%;
- the probability of elimination due to absolute and permanent invalidity of an employee who has become disabled and left the company is derived from the disability tables currently used in reinsurance practice, categorised by gender and age;

- the probability of personnel leaving work due to resignation and dismissals was estimated on the basis of business data, for the observation period from 2015 to 2017, and defined equal to 3.42 % per annum;
- the probability of an advance request was set at 1% per annum and with a residual rate of 50% charged;
- for the retirement age for the generic asset, it was assumed that the first of the pension requirements valid for the Compulsory General Insurance had been reached.

<u>Economic and financial assumptions</u>

The macroeconomic scenario used for the evaluations is described in the following table:

Parameters	Assumptions 2016	Assumptions 2017	Assumptions 2018
The rate of increase in remuneration	3.09%	5.03%	5.76%
Inflation rate	2.00%	2.00%	2.00%
Discount rate employee severance pay	1.275%	1.539%	1.420%

With regard to the discount rate, reference has been made to the structure for expiry of taxes of interest resulting from methodology of the bootstrap type from the curve of the swap rates recorded at the date of 31/12/2018 (Source: Il Sole 24 Ore) and secured with respect to passive commitments with an average residual duration equal to 25 years.

- *Estimates adopted in the actuarial calculation for the purpose of determining the provision for supplementary customer indemnity*

The assessment of the liability for supplementary customer indemnity was performed by an independent actuary based on the following assumptions:

<u>Demographic assumptions</u>

- The probability of death, have been deduced from the Italian population breakdown by age and gender revealed by ISTAT in 2000 and reduced by 25%;
- for the probability of personnel leaving due to the reasons of voluntary resignations or dismissals, the annual frequencies were estimated based on the company data, on the observation period from 2015 to 2018 and defined equal to 4.50% per annum;

<u>Economic and financial assumptions</u>

With regard to the discount rate, reference has been made to the structure for expiry of taxes of interest resulting from methodology of the bootstrap type from the curve of the swap rates recorded at the valuation date (Source: il Sole 24 ore) and fixed with respect to liabilities with average residual duration of 25 years.

- *Estimates adopted in the determination of deferred taxes*

A discretionary assessment is required for administrators to determine the amount of deferred tax assets that can be accounted for. They must estimate the probable manifestation in terms of time and the amount of the future profits taxed fiscally.

6. FINANCIAL RISK MANAGEMENT

The main risks identified, monitored and actively managed by Pharmanutra Group are the following:

CREDIT RISK

As usual, the Group constantly checks the status of receivables by means of a serious and concrete assessment of non-performing loans, putting into practice the company procedure aimed at recovering overdue receivables.

The credit on the Italian market is primarily related to customers who are trusted wholesalers and, therefore, no particular guarantees are required on related receivables.

Foreign markets on which the Group operates the credit are protected by special trade policies.

The total funds constituting a guarantee of credit risk (bad debt provision) is equal 552 thousand euros at 31/12/2018.

In cases where customers request special delays in payment, it is still practice to check the relative creditworthiness class.

The value of receivables is constantly monitored during the year so that its amount expresses the estimated realisable value.

LIQUIDITY RISK

Liquidity risk is related to the capacity by the Group to meet the commitments arising from the financial liabilities assumed.

The Group has been able to generate an adequate level of liquidity for the business objectives, allowing it to maintain a balance in terms of duration and composition of the debt.

In any case, the liquidity risk originated from the normal operation is kept at a low level through the management of an adequate level of cash and the control of the availability of funds obtainable by credit lines.

The Group companies have taken medium-long term loans whose balance at 31/12/2018 is equal to 2,971 thousand euros, in the following manner:

- an unsecured loan with the Banca Nazionale del Lavoro of originally 1,500 thousand euros with expiry on 21/10/2019 whose residue on 31/12/2018 amounted to 375 thousand euros due within the year;
- an unsecured loan contract with the Cassa di Risparmio di Firenze of originally 3,000 thousand euros with expiry on 17/02/2022 whose residue on 31/12/2018 amounted to 1,956 thousand euros, of which 599 thousand euros due within the year and 1,357 thousand euros beyond the year;
- an unsecured loan with Banca Popolare dell'Emilia Romagna of originally 1,000 thousand euros with expiry on 31/12/2022 whose residue on 31/12/2018 amounted to 615 thousand euros of which 154 thousand euros due within the year and 461 thousand euros beyond the year;
- an unsecured loan with the Cassa di Risparmio of Bologna of originally 150 thousand euros with expiry on 28/04/2019 whose residue on 31/12/2018 amounted to 25 thousand euros due within the year;

INTEREST RATE RISK

The Group is moderately exposed to potential risks arising from the variation in the rates of interest on variable loan rates described above.

To protect the risk deriving from the increase in bank interest rates on loans, two interest rate swap contracts have been signed to hedge the change in interest rates. The first is a contract with Banca CR Fi which has a Mark to market value at on 12/31/2018 negative for 11 thousand euros. The second is a contract with Banca Nazionale del Lavoro which has a negative market value of 1.3 thousand euros.

The Group is also exposed to the risk of changes in interest rates on financial assets held in the portfolio which is deemed to be low since they are fixed-rate financial instruments.

MARKET RISK

It is believed that this risk for the Group continues to be deemed low-level.

THE RISK OF VARIATION IN THE FINANCIAL FLOWS

For the companies of the Group, the risk associated with the decrease in financial flows must be considered as low.

In fact, there is a substantial and constant increase from year to year compared to the previous year in the financial flows generated by the management.

It should also be noted that there is no particular need for access to bank credit except for current commercial activities, subject, however, to approval from banking institutions to extend, when necessary, the credit lines in place with the companies of the Group. The substantial increase in company performance allows the company to enjoy an excellent bank rating.

RISK RELATED TO DISPUTES

With reference to disputes, the administrative body reports that it has reduced the fund, which at 31st December 2017 amounted to 32 thousand euros, to 2 thousand euros following the positive resolution of some disputes during the year and recognition of the pending lawsuits with the collaboration of the lawyers assigned.

7. NOTES TO THE MAIN ITEMS

7.1 BALANCE SHEET: NON-CURRENT ASSETS

7.1.1) Propert, plant and equipment	966

(in thousand Euro)	Historical cost as at 31/12/2018	Depr. and amort. Fund as at 31/12/2018	Net value 31/12/2018
Land and buildings	612	338	274
Equipment and machinery	78	33	45
Industrial and trade equipment	17	17	0
Other assets	1,467	820	647
TOTAL	**2,174**	**1,208**	**966**

The following tables show the historical costs, the previous amortisation, the movements occurring in the period and the final balances for each item.

(in thousand Euro)	Historical cost as at 31/12/2017	Revaluation Depriciation	Consol. area change	Purchase	Decrease	Other	Historical cost as at 31/12/2018
Land and buildings	600	0	0	12	0	0	612
Equipment and machinery	61	0	0	17	0	0	78
Industrial and trade equipment	17	0	0	0	0	0	17
Other assets	1.376	0	0	194	(106)	3	1,467
TOTAL	**2,054**	**0**	**0**	**223**	**(106)**	**3**	**2,174**

(in thousand Euro)	Amort. and Depr. Fund as at 31/12/2017	Reval. Depric.	Consol. area change	Users	Amort.	Other	Depr. and Amort. fund as at 31/12/2018
Land and buildings	240	0	0	0	98	0	338
Equipment and machinery	21	0	0	0	12	0	33
Industrial and trade equipment	14	0	0	0	3	0	17
Other assests	646	0	0	(61)	235	0	820
TOTAL	**921**	**0**	**0**	**(61)**	**348**	**0**	**1.208**

Investments in tangible fixed assets incurred during the year by the Group amounted to 223 thousand euros and mainly refer to the purchase of vehicles used by management and sales managers and office furniture.

7.1.2) Intangible fixed assets	**4,729**

The following table shows the historical costs for each item, net of previous depreciation, the movements occurring in the period and the final balances.

(in thousand Euro)	Balance as at 31/12/17	Rev. Depr.	Purchase.	Decrease	Increase	Other	Balance as at 31/12/2018
Development costs	69	0	0		(43)		26
Industrial patent rights	136	0	90		(69)	126	283
Concessions, licenses, trademarks, and similar rights	1,099	0	352		(96)		1,355
Start-up	2,750	0	0		0		2,750
Other intangible fixed assets	44	0	0		(18)		27
Assets under construction and payments on account	327	0	87		0	(126)	288
TOTAL	**4,425**	**0**	**529**	**0**	**(226)**	**0**	**4,729**

The increases in intangible assets refer to the patent and trademark operations for approximately 442 thousand euros. The increase in fixed assets in progress refers to the costs capitalised on research projects in progress for 62 thousand euros and for the remainder for the purchase of software whose implementation had not been completed on the balance sheet date.

Impairment Test

As indicated in the section relating to the valuation criteria, intangible assets with an indefinite useful life are not amortised but are subjected annually, or more frequently, if specific events or changed circumstances indicate the possibility of having suffered a loss in value, to checks to identify any reductions in value, in accordance with the provisions of IAS 36 Impairment of assets (impairment test). The recoverability of the recorded values is verified by comparing the accounting net value of the individual cash generating unit with the recoverable value (value in use). This recoverable value is represented by the current value of the estimated future financial flows that will derive from the continuous use of the assets which referred to the cash generating unit.

The cash flow used for the purposes of determining the value in use is derived from the most recent estimates from the management. The Directors have identified a single general condition of use for the group.

The main assumptions used for the calculation of the value in use relate to the discount rate (WACC post-tax) of financial flows and the rate of growth of “g” used for the calculation of the perpetual annuity. In particular, the WACC used is equal to 9.38% and the rate of growth “g” is equal to 1%.

In addition to IAS 36, the Group, in the course of carrying out the impairment test, has made reference to the following documents:

- Document OIC application n.2 – Impairment and Goodwill, issued in December 2009 by the Italian Agency for Accounting in order to provide an operational guide to all companies that use international accounting standards in the drafting of the financial statements.
- Document Bank of Italy/Consob/Isvap n.4 of 3rd March 2010, containing recommendations issued by the Bank of Italy/Consob/Isvap regarding both the impairment procedure and the disclosure to be provided in the explanatory notes.

7.1.3) Investments	**254**

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Investments in other companies	254	254	0
TOTAL	**254**	**254**	**0**

The item includes the amount equal to 250 thousand euros that represents the value of the stake in the company Red Lions S.p.A., of which Pharmanutra SpA holds 217,391 shares, equal to 15.15% of the capital.

The shares of the Red Lions S.p.A. are held by companies of significant importance for industry in the Pisa area receptive to innovation and development activities. The Group, which shares this receptiveness, could obtain from the stake in Red Lions S.p.A. interesting contacts and exchanges of experience with other companies shareholders (and with their subsidiaries) and with the “target companies” of the activity of Red Lions S.p.A.

7.1.4) Non-current financial assets	**208**

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Security deposits	123	123	0
Advances	85	190	(105)
TOTAL	**208**	**313**	**(105)**

The item “Security deposits”, equal to 123 thousand euros, refers mainly to the sums paid for the signing of the lease contracts concluded with the company Solida S.r.l. (equal to 105 thousand euros as security deposits); during the year, the advance given to Solida was repaid for 105 thousand euros.

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7.1.5) Other non-current assets	671

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Receivables from others	671	338	333
TOTAL	**671**	**338**	**333**

The balance represents the amount of the premiums paid for the policy signed for the Directors' Severance Pay and corresponds to the debt accrued by the Parent Company towards the directors.

7.1.6) Pre-paid tax	489

(in thousand Euro)	Balance as at 31/12/17	Increase	Decrease	Others	Balance as at 31/12/2018
Depreciation provisions non-tax credits	103	13	(6)	0	110
Legal disputes risks provisions	9	0	(9)	0	0
On consolidation effects	71	0	0	0	71
Post-employment benefits	42	8	0	0	50
Indemnity fund customers	(9)	0	(2)	0	(11)
Ammortisation and depreciation fund	(21)	(22)	0	0	(43)
Provisions for inventory depreciation	32	52	0	0	84
Renumeration corporate bodies	116	228	(116)	0	228
TOTALE	**343**	**279**	**(133)**	**0**	**489**

The prepaid tax assets have been calculated taking into account the cumulative amount of all temporary differences based on the expected tax rates in force at the time when the temporary differences will reverse. Prepaid tax assets have been recognised as there is reasonable certainty of existence, in the years in which the deductible temporary differences will be reversed, against which prepaid tax assets have been entered, of a taxable income not lower than the amount of the differences to cancel.

The prepaid tax assets relating to the application to the Employee Severance Pay Fund and to the Supplementary Client Indemnity Fund of the valuations required by the IAS/IFRS on these items, are the result of all the adjustments made from the FTA up to the closing date of the financial statements in question.

The prepaid tax assets relating to the remuneration of corporate bodies concern the non-deductibility of variable remuneration as it was not liquidated by 12th January 2018.

7.2 BALANCE SHEET: CURRENT ASSETS

7.2.1) Inventory	2,149

(in thousands of Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Raw materials, ancillary and consumables	198	183	16
Work in progress and semi-finished	0	0	0
Finished products and goods	1,951	1,696	255
Advances	0	0	0
TOTAL	**2,149**	**1,878**	**271**

The value of finished product inventories is net of the sum of 319 thousand euros (73 thousand euros as at 31/12/2017) set aside for the depreciation of inventories of finished products.

7.2.2) Cash equivalents	14,968

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Bank and postal deposit	14,945	14,032	913
Checks	17	18	(1)
Cash and cash values	6	6	(0)
TOTAL	**14,968**	**14,056**	**912**

The balance represents the cash and cash equivalents and the existence of cash and valuables at the closing date of the period. For the evolution of cash and cash equivalents, please refer to the cash flow statement for the year 2018 and to what is reported in the Report on operations.

7.2.3) Current financial assets	865

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Financial instruments (Bonds)	855	0	855
Other	10	0	10
TOTAL	**865**	**0**	**865**

The item “Securities” represents a temporary investment of part of the company liquidity by granting an individual management mandate to Azimut Capital Management S.g.r.. Pursuant to this mandate, the bonds of issuers with an adequate rating have been subscribed. At 31/12/2018, a comparison with the market value shows a capital loss of 23 thousand euros which was accounted, on the basis of the valuation criteria adopted by the Group pursuant to IFRS 9, to an equity reserve. It should be noted that on 1st March 2019, the capital loss had been completely reabsorbed and that the balance of the management was positive for about 20 thousand euros.

7.2.4) Trade receivables	12,977

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Receivables from Clients in Italy	7,733	5,924	1,809
Receivables from clients abroad	2,389	1,447	942
Other receivables	3,454	2,999	455
Invoices to be issued	0	226	(226)
Credit Depreciation Fund	(599)	(512)	(87)
TOTAL	**12,977**	**10,084**	**2,893**

The increase that has occurred with respect to the previous year is the result of the greater volume of activity carried out by the companies of the group in the course of 2018.

The amounts shown in the financial statements are net of provisions made in the bad debt Fund, estimated by the Group management based on the age of the receivables, the evaluation of their enforceability and also considering the historical experience and the forecasts regarding the possibility for recovery in the future, also for that part of receivables due on the date of the financial statements.

The movement of the bad debt provision, during the course of 2018, is as follows:

(in thousand Euro)	Balance as at 31/12/2018
Initial balance	(512)
Profit for the year	0
Reserves for the year	(87)
Other	0
Final balance	**(599)**

7.2.4) Other current assets	1,671

The item “Other current assets” is detailed in the table that follows:

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Receivables from shareholders for indemnification	769	0	769
Receivables toward employees	5	10	(5)
Advances	432	252	180
Deposits	330	0	330
Accrued income and deferred charges	100	122	(22)
Other receivables	35	22	13
TOTAL	**1,671**	**406**	**1,265**

The item "Receivables from shareholders for indeminification" represents the receivable due to Pharmanutra from pre-existing shareholders on the listing date for taxes, penalties and interest paid for the settlement of the tax dispute relating to financial years 2013, 2014 and 2015 based on the declarations and the guarantees issued by them in the admission document first Section, Chapter 16 Paragraph 16.1

The item "Advances" includes receivables from agents for advances amounting to 278 thousand euros (245 thousand euros in the previous year), relating to the sums advanced by the companies of the Group at the time of signing agency contracts, and advances to suppliers for 154 thousand euros (at 31/12/2017 7 thousand euros). The advances paid to agents will be returned at the time of the termination of the relationship with each agent.

The item "Deposits" item refers to the confirmatory deposit paid upon signing the preliminary contract for the purchase of land in Montacchiello (Pisa).

7.2.6) Tax credits	1,526

The "Tax credits" are represented by the following components:

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Value added tax	239	176	63
Credit for fiscal bonus R&S expenses	1,287	0	1,287
Other tax credits	0	1	(1)
TOTAL	**1,526**	**177**	**1,349**

With reference to item "Credits for fiscal bonus R&S expenses", please refer to the paragraph "research activities and development of the Report on Operations".

7.3 BALANCE SHEET: NET EQUITY

7.3.1) Net equity	24,442

The changes in items of equity of the Group and of third parties are given below:

(in thousand Euro)	Share capital	Legal reserve	Other reserves	Actuarial reserve IAS 19	Invest. Reval. reserve	First time adoption reserves	Profit(loss) of the year.	Balance
Net quity of the Group as at 31/12/2017	1,123	40	11,983	(9)		(69)	6,030	19,098
Allocation of result		185	5,846				(6,030)	0
Dividens distribution			(3.195)					(3,195)
Increase share capital and premium capital	0		, 0					0
Other changes			3	1	(23)			(19)
Profit (loss) for the year							8,557	8,557
Net equity of the Group as at 31/12/2018	**1,123**	**225**	**14,637**	**(8)**	**(23)**	**(69)**	**8,557**	**24,442**

The fully subscribed and paid-up share capital amounts to 1,123 thousand euros and is represented by 9,680,977 ordinary shares without the nominal value of the Parent Company.

In 2018, a coupon of € 0.33 was distributed for each ordinary share, with a pay-out ratio of approximately 50% of the 2017 consolidated net profit, in line with the consolidated dividend distribution policy and taking into account the confirmed capacity the Group's own income, for a total amount of dividends of 3,195 thousand euros.

The link between the equity and the result of the Parent Company with the corresponding consolidated data is the following:

(in thousands Euro)	Result for the year	Net Equity
Net equtiy and result from the annual report of the Parent Company	**7,377**	**21,496**
Effect of the elimination of the carrying value of consolidated investments:		
- carrying value investiments	0	(2,801)
- net equity (includind the result of consolidated companies)	2,020	4,061
- net equity (includind the result of consolidated companies)	0	2,750
Elimination of effects of transactions between companies of the Group		
- Cancellation intra-group dividents	(842)	(842)
- Elimination capital gains and losses from internal sales	2	(222)
Net equity and result of the Group	**8,557**	**24,442**
Net equity and result of third-parties		
Net equity and result perinent to the Consolidated Balance Sheet	**8,557**	**24,442**

7.4 BALANCE SHEET: NON-CURRENT LIABILITIES

7.4.1) Non-current financial liabilities	**1,831**

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Payables to banks	1,818	2,972	(1,154)
Payables to other lenders	13	15	(2)
TOTAL	**1,831**	**2,987**	**(1,156)**

Payables to banks are represented by the share of the loans due beyond 12 months by the companies of the Group.

The following table shows the breakdown at 31/12/2018 of bank debt for financing/loans broken-down by company and expiry. It should be noted that the payables due within one year are classified under the item “Current financial liabilities” (see Paragraph 7.5.1).

(in thousands Euro)	Balance as at 31/12/2018	Due within 12 months	Due after 12 months
Pharmanutra S.p.A.	2,331	975	1,356
Junia Pharma S.p.A.	616	154	462
Alesco S.p.A.	25	25	0
Total	**2,972**	**1,154**	**1,818**

7.4.2) Provisions for risks and liabilities	539

(in thousands Euro)	Balance as at 31/12/17	Incr.	Decr.	Other	Balance as at 31/12/2018
Legal disputes	32	0	(30)	0	2
Supplementary compensation customers	379	158	0	0	537
TOTAL	**411**	**158**	**(30)**	**0**	**539**

The Provisions for risks and liabilities consist of:

- Provision for risks to hedge the risk for pending legal disputes is valued at 2 thousand euros; following the positive outcome of some disputes in 2018, it was reduced by 30 thousand euros.

- Supplementary client indemnity fund, established in consideration of Article 1751 of the Civil Code and the collective economic agreement of 20th March 2002 which provides that, upon termination of the agency relationship, it is the responsibility of the agent to pay severance pay.

  The Supplementary client indemnity fund is calculated by applying to the commissions and other fees earned by the agent in the course of the employment relationship, a rate that may vary from 3 to 4%, depending on the duration of the agency contract; an assessment was made on the resulting amount according to the International Accounting Standards IAS/IFRS (IAS 37). The Group therefore set aside, based on the provisions of the law and in relation to the positions present at the end of the year, an amount equal to 158 thousand euros in the Customer Indemnity Fund, bringing the it to a total of 537 thousand euros.

7.4.3) Benefits fund	1,693

(in thousand Euro)	Balance as at 31/12/17	Provisions	Payments	Other	Balance as at 31/12/2018
Post-employment benefits directors	671	382	0	0	1,053
Post employment benefits	529	123	(12)	(0)	640
TOTAL	**1,200**	**505**	**(12)**	**(0)**	**1.693**

The Funds for benefits relate to:

- TFM - Directors' Severance Indemnity. The amount set aside equal to 1.1 million euros was calculated on the basis of the figure established at the ordinary shareholders' meeting and corresponds to the actual commitment of the company towards the Directors at the closing date of the year.

- TFR - Post-employment benefits set aside by the companies included in the consolidated financial statements. The payable for employee severance pay was calculated in accordance with current provisions governing the employment relationship for employees and corresponds to the actual commitment of the company towards individual employees at the balance sheet date. The amount set aside refers to employees who, following the entry into force of the new supplementary pension system, expressly allocated the employee severance pay accruing from 1 January 2007 to the company. The amount relating to the employee severance pay Fund is therefore net of the amounts paid during the year and destined to pension funds. The resulting amount was assessed according to the International Accounting Standards IAS/IFRS (IAS 19).

7.5 BALANCE SHEET: CURRENT LIABILITIES

7.5.1) Current financial liabilities	3,511

(in thousands Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Payables to banks for short term loans	2,358	1,367	991
Payables to banks for loans	1,154	1,260	(106)
TOTAL	**3,511**	**2,627**	**884**

The item "Due to banks for short term loans" amounting to 2,358 thousand euros is made up of 2,048 thousand euros from bills subject to collection (872 thousand euros at 31/12/17). This increase is due to an increase in the turnover achieved by the companies of the group.

The item "Payables due to banks for loans" represents the portion of debt related to financing and loan repayments to be repaid within the next financial year (see the detailed table in Paragraph 7.4.1).

7.5.2) Trade payables	6,666

Trade payables are detailed in the following table:

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Payables to suppliers in Italy	6,234	4,642	1,592
Payables to suppliers abroad	213	89	124
Advances	219	129	90
TOTAL	**6,666**	**4,860**	**1,806**

The increase in trade payables is a consequence of the increased volume of activity of the Group companies.

7.5.3) Other current liabilities	1,787

The composition of the item "Other current liabilities" is detailed in the table that follows:

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Payables for wages and salaries	316	330	(14)
Payables to social security institutions	295	229	66
Payables to directors and auditors	1,062	619	443
Accrued liabilities and deferred income	6	10	(4)
Post-employment benefits agents and representatives	108	92	16
TOTAL	**1,787**	**1,281**	**506**

7.5.4) Payables for current taxes	1,004

(in thousand Euro)	Balance as at 31/12/2018	Balance as at 31/12/17	Difference
Value added tax	(54)	9	(63)
Income tax (IRES or IRAP)	568	531	37
Other tax payables	490	403	87
TOTAL	**1,004**	**943**	**61**

7.6 INCOME STATEMENT: REVENUE

7.6.1) Net revenues	46,673

(in thousand Euro)	2018	2017	Difference
Sales revenues	46,673	37,794	8,878
TOTAL	46,673	37,794	8,878

Direct business line:it is characterised by the direct supervision by the companies of the Pharmanutra group of distribution channels in the reference markets and the related marketing activities.

In 2018, the direct business line accounted for 74% (78% in 2017) of total turnover.

The distribution channels for the companies Pharmanutra S.p.A. and Junia Pharma S.r.l. are divided into:

- Direct, deriving from the activity carried out by the network of medical sales representatives who are entrusted with the marketing of products throughout the territory of the country. 95% of direct orders are orders directly from pharmacies and parapharmacies.
- Wholesalers who supply products directly to pharmacies and the parapharmacies.

Of fundamental importance for both distribution channels is the activity carried out by the medical sales representatives directly aimed at the medical profession in order to make known the clinical efficacy and the uniqueness of the products.

- Invitations to tender for supplying public bodies.

Line of indirect business: the marketing of the products is entrusted to distributors who, through distribution contracts, buy the products of the group Pharmanutra and then resell them in the respective foreign markets.

The Indirect Business Line accounted for 26% of turnover in 2018 (22% in the previous year).

7.6.2) Other revenues and income	1,446

(in thousands Euro)	2018	2017	Difference
Tax credits on R&S expenses and grants for current expenses	1,298	14	1,284
Insurance reimbursements and recovery of expenses	21	31	-10
Other revenues	127	28	99
of which non-current			
Tax credits on R&S expenses and grants for current expenses	*831*	0	*831*
TOTAL	1,446	73	1,373

The item “Tax credit on R&D expenses” includes the amount of the benefit calculated on the basis of Legislative Decree No. 145/2013 and subsequent amendments for research and development costs incurred by the Group for the years between 2015 and 2018. The portion of this credit for previous years amounts to 831 thousand euros.

Other revenues and income mainly consist of contingent assets and non-existent assets.

7.7 INCOME STATEMENT: OPERATING COSTS

7.7.1) Purchases of raw materias, ancillary and consumables	2,743

The purchases are composed as described in the following table:

(in thousands Euro)	2018	2017	Difference
Costs of raw materials	687	521	166
Costs of finished goods	1,582	1,657	-75
Other costs	474	362	112
TOTAL	**2,743**	**2,540**	**203**

7.7.2) Changes in inventory	(271)

(in thousands Euro)	2018	2017	Difference
Changes raw materials, spare parts, consumables and packaging	(58)	(94)	36
Changes finished products	(406)	(757)	351
Provisions to Inventory depreciation fund	193	72	121
TOTAL	**(271)**	**(779)**	**508**

The increase in final inventories is physiologically linked to the growth in sales volumes.

7.7.3) Costs for services	29,747

(in thousand Euro)	2018	2017	Difference
Marketing	4,557	3,014	1,543
Production and logistics	7,606	5,972	1,634
Structure	2,154	1,772	382
Scientific	775	603	172
IT	313	298	15
Business and Network	8,109	6,476	1,633
Corporate bodies	5,811	5,204	607
Leases and rentals	255	272	(17)
Financial	166	152	14
TOTAL	**29,747**	**23,763**	**5,984**

The increase in costs for services, and in particular those relating to marketing, production and logistics and trading costs is linked to the increase in turnover.

7.7.4) Personnel costs	2,801

The composition of the personnel costs is represented in the following table:

(in thousand Euro)	2018	2017	Difference
Salaries and wages	2,017	1,836	181
Corporate charges	626	541	85
Benefits to employees	149	158	(9)
Other personnel costs	9	5	4
TOTAL	**2,801**	**2,540**	**261**

The item includes all expenses for employees, including accrued holidays and additional monthly payments, as well as the related social security charges, including the provision for severance pay and other costs provided for by contract.

The breakdown of the number of employees by category is highlighted in the following statement:

	2018	2017
Executives	2	1
Employees	45	40
Workers	1	1
	48	**42**

7.7.5) Other operating costs	520

(in thousands of Euro)	2018	2017	Difference
Deferred revenue	36	24	12
Fines and penalties	14	13	1
Donations and gifts	52	46	6
Indirect taxes	50	58	(8)
Other costs	368	220	148
TOTAL	**520**	**361**	**159**

INCOME STATEMENT: FINANCIAL REVENUES (COSTS)

7.8.1) Financial income	6

(in thousand of Euro)	2018	2017	Difference
Gains from foreign exchanges	3	9	(6)
Interest on bonds	2	-	2
Other interest	1	-	1
TOTAL	**6**	**9**	**-3**

7.8.2) Financial costs	**68**

(in thousands of Euro)	2018	2017	Difference
Losses on foreign exchanges	4	7	(3)
Interest payable on long-term loans	40	57	(17)
Other interest payable	24	34	(10)
TOTAL	**68**	**98**	**(30)**

INCOME STATEMENT: INCOME TAXES

7.10) Taxes	**3,296**

(in thousand of Euro)	2018	2017	Difference
Current taxes	3,443	2,410	1,033
(Pre-paid)/ deferred taxes	(147)	329	(476)
TOTALE	**3,296**	**2,739**	**557**

Taxes are set aside according to the matching principle of accounting and have been determined in accordance with the rates and rules in force. The taxes to be settled for the financial year are set out in the Balance Sheet.

OTHER INFORMATION

In accordance with the law, the total fees due to the Directors, the members of the Boards of Statutory Auditors and the independent auditors, if present, are shown:

- Directors: 5,368 thousand euros
- Board of Statutory Auditors: 52 thousand euros
- Independent auditors: 54 thousand euros.

8. COMMITMENTS

The parent company has issued the following guarantees in favour of the subsidiary companies:

- Junia Pharma Srl, by a resolution of 03/03/2015, a guarantee for 960,000 euros;
- Alesco Srl to guarantee of bills subject to collection for 210,000 euros;
- Alesco Srl to guarantee the opening of credit in C/C for 52,000 euros.
- On 31st October 2018, the parent company signed a preliminary agreement for the purchase of a plot of land in the locality Montacchiello (Province of Pisa).

RELATED PARTY TRANSACTIONS

Relationships with related parties are identified according to the extended definition set forth in IAS 24, i.e., including relations with administrative and control bodies as well as managers with strategic responsibilities.

The impact statements at 31st December 2018 and the economic impact for the 2018 financial year are shown in the following table:

Relationship with associated parties (in thousands of Euro)	Items Consolidated Income Statement as at 31.12.18		Items of Consolidated Balance Sheet as at 31.12.18				
	Costs for services	Other revenues	Other current liabilities:	Employee benefits fund:	Non-current financial assets:	Non-current financial liabilities:	Current financial liabilities
Members of the board of directors of Pharmanutra S.p.A.	4,560		902	1,053	-	-	-
Members of the board of directors of subsidiaries	808		160	-	-	-	-
Statutory Auditors Board	52		-	-	-	-	-
Remuneration of other executives	165		12	-	-	-	-
Solida S.r.l	229		-	-	105	-	-
Calabughi	249		73	-	-	-	-
Other associated parties	67		11	-	-	-	-
TOTAL	6,131		1,157	1,053	105	0	0

The members of the Board of Directors of the Parent Company receive a fee consisting of a fixed component, a variable component and a component for Severance Pay.

The members of the Board of Directors of the subsidiaries receive a fee consisting of a fixed and variable component.

The companies of the Group have established their registered and operating offices in buildings belonging to Solida S.r.l. owned by some shareholders of the Parent Company; the companies of the Group pay a rent and have paid Solida S.r.l. amounts as a security deposit and advance.

Pisa, 12th March 2019

For the Board of Directors

The President

(Andrea Lacorte)