VERALLIA SA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2019

CONTENTS

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(in € million)	Note	31 December 2019	31 December 2018
ASSETS			
Goodwill	9	550.9	552.0
Other intangible assets	10	499.2	559.3
Property, plant and equipment	11	1 299.3	1 199.5
Investments in associates	3.3	0.6	0.6
Deferred tax	8.2	42.3	43.6
Other non-current assets	13	37.5	46.4
Non-current assets		**2 429.8**	**2 401.4**
Short-term portion of non-current assets		-	0.5
Inventories	14.1	455.2	477.9
Trade receivables and other current assets	14.2	178.9	190.9
Current tax receivables	14	21.0	14.9
Cash and cash equivalents	15	219.2	262.1
Current assets		**874.3**	**946.3**
Total Assets		**3 304.1**	**3 347.7**
EQUITY & LIABILITIES			
Share capital	16.1	400.2	137.5
Consolidated reserves	16	(14.0)	(114.4)
Equity attributable to shareholders		**386.2**	**23.1**
Non controlling interests		33.4	27.5
Equity		**419.6**	**50.6**
Non-current financial liabilities and derivatives	17	1 584.0	2 139.2
Provisions for pensions and other employee benefits	19	133.0	117.4
Deferred tax	8.2	166.6	192.6
Provisions and other non-current financial liabilities	18	43.1	52.8
Non-current liabilities		**1 926.7**	**2 502.0**
Current financial liabilities and derivatives	17	225.9	105.4
Current portion of provisions and other current financial liabilities	18	51.9	41.1
Trade payables	14.3	383.6	408.4
Current tax liabilities	14	19.3	8.6
Other current liabilities	14.3	277.1	231.6
Current liabilities		**957.8**	**795.1**
Total Equity and Liabilities		**3 304.1**	**3 347.7**

CONSOLIDATED STATEMENT OF INCOME

(in € million)	Note	Year ended 31 December 2019	2018
Revenue	**5.1**	**2 585.9**	**2 415.8**
Cost of sales	5.2	(2 043.6)	(1 973.2)
Selling, general and administrative expenses	5.2	(170.8)	(144.7)
Acquisition-related items	6.1	(59.4)	(61.8)
Other operating income and expenses	6.2	(17.0)	(14.9)
Operating profit		**295.1**	**221.2**
Net financial income (expense)	**7**	**(115.9)**	**(146.8)**
Profit (loss) before tax		**179.2**	**74.4**
Income tax	8	(53.8)	(24.2)
Share of net profit (loss) of associates	3.3	(0.7)	(1.7)
Net profit (loss) for the year		**124.6**	**48.5**
Attributable to shareholders of the Company		***115.6***	***41.1***
Attributable to non-controlling interests		*9.0*	*7.4*
Basic earnings per share *(in €)*	**16.3**	**1.00**	**0.18**
Diluted earnings per share *(in €)*	**16.3**	**1.00**	**0.18**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Note	Year ended 31 December	
		2019	2018
Net profit (loss) for the year		***124.6***	***48.5***
Items that may be reclassified to profit or loss			
Translation differences		6.8	(44.2)
Changes in fair value of cash flow hedges		(20.6)	(23.6)
Deferred tax on items that may subsequently be reclassified to profit or loss	8.2	5.5	6.1
Total		(8.3)	(61.7)
Items that will not be reclassified to profit or loss			
Remeasurement of the defined benefit liability (asset)	19.1	(8.0)	2.7
Deferred tax on items that will not be reclassified to profit or loss	8.2	2.3	(0.7)
Total		(5.7)	2.0
Other comprehensive income (loss)		***(14.0)***	***(59.7)***
Total comprehensive income (loss) for the year		**110.6**	**(11.2)**
Attributable to shareholders of the Company		*101.2*	*(11.9)*
Attributable to non-controlling interests		*9.4*	*0.7*

CONSOLIDATED STATEMENT OF CASH FLOWS

(in € million)	Note	Year ended 31 December 2019	2018
Net profit (loss) for the year		**124.6**	**48.5**
Share of net profit (loss) of associates, net of dividends received	3.3	0.7	1.7
Depreciation, amortisation and impairment of assets		283.5	301.8
Gains and losses on disposals of assets	6.2	(1.4)	6.6
Interest expense on financial liabilities	17.7	68.8	92.3
Unrealised gains and losses on changes		(1.6)	-
Gain/loss on net monetary position (IAS 29, *Hyperinflation*)		5.8	0.7
Unrealised gains and losses on changes in the fair value of derivatives		(2.9)	(0.5)
Change in inventories		19.7	(27.7)
Change in trade receivables, trade payables and other receivables and payables		(13.9)	8.1
Current tax expense	8.1	71.0	57.8
Taxes paid		(59.1)	(38.9)
Changes in deferred taxes and provisions		1.6	(21.1)
Net cash flows from operating activities		**496.8**	**429.3**
Acquisition of property, plant and equipment and intangible assets	4.3	(252.5)	(225.0)
Increase (decrease) in debt on fixed assets	14	19.3	(5.6)
Acquisitions of subsidiaries, net of cash acquired		(0.5)	-
Deferred payment related to the acquisition of a subsidiary		-	-
Capital expenditure		**(233.7)**	**(230.6)**
Disposals of property, plant and equipment and intangible assets		3.7	-
Sale of equity-accounted securities	3.1.2.1 & 3.1.2.2	-	14.0
Disposals		**3.7**	**14.0**
Increase in loans, deposits and short-term borrowings		(5.7)	(3.8)
Reduction in loans, deposits and short-term borrowings		13.7	0.4
Changes in loans and deposits	**13**	**8.0**	**(3.4)**
Net cash flows from (used in) investing activities		**(222.0)**	**(220.0)**
Capital increase (reduction)	16	-	-
Transactions with shareholders		**-**	**-**
Capital increases of subsidiaries subscribed by third parties	19.4	7.2	5.8
Dividends paid to non-controlling interests by consolidated companies		(6.9)	(2.5)
Transactions with non-controlling interests		**0.3**	**3.3**
Increase (reduction) in bank overdrafts and other short-term borrowings	17	106.4	67.5
Increase in long-term debt	17	1 538.5	607.9
Reduction in long-term debt	17	(1 891.0)	(741.4)
Financial interest paid	17.7	(70.4)	(99.8)
Change in gross debt		**(316.5)**	**(165.8)**
Net cash flows from (used in) financing activities		**(316.2)**	**(162.5)**
Increase (reduction) in cash and cash equivalents		**(41.4)**	**46.8**
Impact of changes in foreign exchange rates on cash and cash equivalents		(1.5)	(4.7)
Impact of changes in fair value on cash and cash equivalents		-	-
Opening cash and cash equivalents		**262.1**	**220.1**
Closing cash and cash equivalents		**219.2**	**262.1**

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

(en millions €)	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Other reserves and retained earnings	Equity attribuable to shareholders	Non-controling interests	Total equity
As of 31 December 2017		**137.5**	**-**	**(3.2)**	**1.5**	**(131.5)**	**4.4**	**19.1**	**23.4**
IFRS 9 (transition effect)		-	-	-	-	3.3	**3.3**	0.1	**3.4**
IAS 29 *Hyperinflation*		-	-	-	-	14.5	**14.5**	10.4	**24.9**
As of 1 January 2018		**137.5**	**-**	**(3.2)**	**1.5**	**(113.9)**	**22.1**	**29.6**	**51.7**
Other comprehensive income (loss)		-	-	(31.3)	(22.7)	0.9	**(52.9)**	(6.8)	**(59.7)**
Net profit (loss) for the year		-	-	-	-	41.1	**41.1**	7.4	**48.5**
Total comprehensive income (loss) for the year		*-*	*-*	*(31.3)*	*(22.7)*	*42.0*	***(11.9)***	*0.7*	***(11.2)***
Capital increase for the Group Savings Plan _ Verallia Packaging		-	-	-	-	7.6	**7.6**	(1.8)	**5.8**
Dividends / distribution of share premium		-	-	-	-	-	**-**	(1.3)	**(1.3)**
Share-based compensation		-	-	-	-	4.5	**4.5**	0.2	**4.7**
IAS 29 *Hyperinflation*		-	-	-	-	1.1	**1.1**	0.8	**1.9**
Other		-	-	-	-	(0.2)	**(0.2)**	(0.5)	**(0.7)**
Changes in non-controlling interests		-	-	-	-	-	**-**	-	**-**
As of 31 December 2018		**137.5**	**-**	**(34.5)**	**(21.2)**	**(58.9)**	**23.1**	**27.5**	**50.6**
IFRS 16 (transition effect)		-	-	-	-	0.2	**0.2**	-	**0.2**
As of 1 January 2019		**137.5**	**-**	**(34.5)**	**(21.2)**	**(58.7)**	**23.3**	**27.5**	**50.8**
Other comprehensive income (loss)		-	-	6.7	(20.8)	(0.3)	**(14.4)**	0.4	**(14.0)**
Net profit (loss) for the year		-	-	-	-	115.6	**115.6**	9.0	**124.6**
Total comprehensive income (loss) for the year		*-*	*-*	*6.7*	*(20.8)*	*115.3*	***101.2***	*9.4*	***110.6***
Capital increase	16.1	251.7	1.8	-	-	-	**253.5**	-	**253.5**
Capital increase for the Group Savings Plan _ Verallia SA	16.1	11.0	76.6	-	-	(93.7)	**(6.1)**	6.1	**-**
Capital increase for the Group Savings Plan _ Verallia Packaging		-	-	-	-	9.5	**9.5**	(2.3)	**7.2**
Dividends / distribution of share premium		-	-	-	-	-	**-**	(6.3)	**(6.3)**
Share-based compensation		-	-	-	-	5.7	**5.7**	-	**5.7**
IAS 29 *Hyperinflation*		-	-	-	-	9.5	**9.5**	6.4	**15.9**
Other		-	-	0.2	(0.4)	(10.0)	**(10.2)**	(6.6)	**(16.8)**
Change in non-controlling interests		-	-	-	-	-	**-**	(0.8)	**(0.8)**
As of 31 December 2019		**400.2**	**78.4**	**(27.6)**	**(42.4)**	**(22.4)**	**386.2**	**33.4**	**419.6**

NOTE 1 – INFORMATION ON THE GROUP

1.1 Incorporation and creation

1.1.1 Corporate name

At 31 December 2019, the Company's corporate name is "Verallia" and has been since 20 June 2019.

1.1.2 Place of registration and registration number

The Company is registered in the Nanterre Trade and Companies Register under number 812 163 913.

LEI: 5299007YZU978DE0ZY32

1.1. 3 Date of incorporation and length of life of the Company

The Company has been incorporated for a period of 99 years starting from its registration on 23 June 2015, unless it is dissolved early or extended on the joint decision of the shareholders in accordance with the law and articles of association.

The financial year begins on 1 January and ends on 31 December of each year.

1.1.4 Registered office, legal form and applicable legal regime

The Company's registered office is located at 31 Place des Corolles, Tour Carpe Diem, Esplanade Nord, 92400 Courbevoie, France.

At 31 December 2019, the Company is a *société anonyme* (limited company) governed by French law.

1.2 Highlights

Verallia SA listed on Euronext on 4 October 2019.

On 20 September 2019, prior to this IPO, the company incorporated into its capital the outstanding amount (principal and interest) of the loan granted to it by its parent company, Luxembourg's Horizon Intermediate Holdings S.C.A., via a €251.4 million increase in the Company's capital (Note 16).

While listing its shares for trading on the regulated market of Euronext, the Group also carried out a number of transactions and reorganisation measures:

- the merger-acquisition of Horizon Holdings II by Horizon Holdings I, both fully owned subsidiaries of the Company, and then the merger-acquisition of Horizon Holdings I by the Company; these transactions had no impact on the Group's consolidated financial statements,
- the merger-acquisition by the Company of Horizon Intermediate Holdings S.C.A., the Company's parent company with 100% of its capital,
- the transfer by the Verallia FCPE (employee investment fund) to the Company of all ordinary and preference shares corresponding to the 3.52% it owned at 7 October 2019 in the capital of the Verallia

Packaging subsidiary, in exchange for new ordinary shares in the Company. This transaction resulted in the reclassification of non-controlling interests to attributable shareholders' equity,

- the full repayment of Term Loan B of a nominal amount of €1,125 million and of Term Loan C of a nominal amount of €550 million, together with the arrangement of a new Term Loan A of a nominal amount of €1,500 million on 7 October 2019,
- the arrangement of a new revolving credit facility of €500 million on 7 October 2019 to replace the €325 million facility. This revolving credit facility provides the Group with a secure source of funding (together with the potential support of its programme to issue Negotiable European Commercial Paper (Neu CP)).

1.3 OPERATIONS

With industrial operations in 11 countries, Verallia is the world's third-largest producer of glass packaging for beverages and food products. In 2019, the Group produced approximately 16 billion bottles and jars. The Group boasts a sound position in Western and Eastern Europe, as well as in Latin America. Its main subsidiaries are located in the following countries: France, Italy, Germany, Spain, Portugal, Argentina and Brazil. Verallia employs approximately 9,705 employees worldwide, spread over 32 glass production sites with a total of 57 furnaces.

NOTE 2 – BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 DECLARATION OF COMPLIANCE AND APPLICABLE FRAMEWORK

The Verallia Group's consolidated financial statements for the period ended 31 December 2019 have been prepared in accordance with international accounting standards (IFRS) as published by the IASB (International Accounting Standards Board) and adopted in the European Union in compliance with European Regulation n°1606/2002 of 19 July 2002. They were approved by the Board of Directors on 20 February 2020.

International accounting standards include IFRS (International Financial Reporting Standards), IAS (International Accounting Standards) and their interpretations. This reporting framework can be found on the European Commission's website[1].

The consolidated financial statements are presented in millions of euros, with amounts rounded up or down to the nearest million. So rounding differences may appear between different financial statements.

The accounting principles applied are identical to those applied to the consolidated financial statements at 31 December 2018 except for the following standards, amendments and interpretations applied starting from 1 January 2019:

1: https://ec.europa.eu/info/index_en

IFRS 16, *Leases*	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	1 January 2019
IFRIC 23, Uncertainty over Income Tax Treatments	1 January 2019
Annual improvements to IFRS (2015-2017 Cycle)	1 January 2019

These new texts had no material impact on the financial statements, except for IFRS 16. The resulting changes to accounting policies are described in detail in Note 11.

IFRIC 23 was applied retrospectively without restating comparative periods and only had a presentation impact corresponding to the reclassification of tax risk provisions to current tax liabilities at 1 January 2019 (Note 8.5 & Note 18).

The Group did not apply the following new standards, amendments and interpretations, which were not yet effective:

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS PUBLISHED BUT NOT YET EFFECTIVE OR EARLY ADOPTED BY THE GROUP	
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3, Business Combinations	1 January 2020
Amendments to IAS 1 and IAS 8, Definition of Material	1 January 2020

Application of the Phase 1 amendments to IFRS 9/IAS 39 relating to the interest rate benchmark reform, published in September 2019 and adopted by the European Union on 15 January 2020, will not compromise interest rate hedging relations despite the reform.

The Group thus decided to apply the Phase 1 amendments early on 31 December 2019 and provide the required information up until the end of the period of uncertainty, i.e. the date on which application of these amendments ends.

The Group's interest rate hedging relations subject to the interest rate benchmark reform are its interest rate swaps, classified as cash flow hedges, and the cash flow hedging arranged for its new Term Loan A.

Hedged financing and hedging instruments are indexed to the Euribor.

The Group expects the Euribor rate to be replaced by the hybrid Euribor rate simultaneously in both hedging instrument contracts and hedged items, so it believes the corresponding cash flow hedging relations will remain fully effective.
The Group therefore expects the interest rate benchmark reform to have no material impact on its hedging relations.

2.2 FIRST TIME APPLICATION OF IFRS 16

The Group adopted IFRS 16 Leases for the first time on 1 January 2019.

On 13 January 2016, the IASB issued IFRS 16 Leases, which was adopted by the European Union on 31 October 2017. IFRS 16 replaces IAS 17 and the corresponding IFRIC and SIC interpretations. For lessees, it removes the different accounting treatments previously applicable to operating leases and finance leases.

Lessees are required to record all agreements (with exceptions) on terms similar to those currently imposed by IAS 17 for finance leases, recognising a right-of-use asset (representing the right to use the underlying leased asset) and a lease liability (representing the obligation to pay rent over the term of the lease).

The standard does, however, provide exemptions for leases that are short term (12 months or less) or for low-value assets. The Group made use of these two exemptions. The agreements in question mainly concern light industrial equipment, photocopiers, water fountains and IT equipment.

The Group presents right-of-use assets as “property, plant and equipment” on the same line as underlying assets of a similar nature over which it has full ownership, and it presents lease liabilities as “financial liabilities and non-current derivatives” and “financial liabilities and current derivatives” in the statement of financial position.

The new accounting policies applied in accordance with IFRS 16 are described in Note 11.

2.2.1 Method and transition impacts

The Group used the simplified retrospective approach to apply IFRS 16, which recommends recognising the cumulative effects of initial application of IFRS 16 by adjusting the opening balance of reserves at 1 January 2019. As a result, comparative information presented for 2018 was not restated and is therefore presented, as previously, according to the principles of IAS 17 and its interpretations.

At the transition date, i.e. 1 January 2019, the lease liabilities of agreements qualified as operating leases under IAS 17 were measured at the value of outstanding lease payments, discounted at a single discount rate for each portfolio of similar leases. Discount rates are based on the incremental borrowing rate by currency, taking into account the specific economic conditions in each country. In addition, discount rates were determined based on remaining lease terms (rather than original terms).

Right-of-use assets are measured at an amount equal to that of lease liabilities, adjusted for lease payments made in advance or outstanding recognised in the balance sheet as well as any incentives received from lessors.

As a lessee, the Group rents certain equipment (primarily forklift trucks) under leases that were previously qualified as finance leases under IAS 17. In the case of such finance leases, the carrying amounts of the right-of-use asset and lease liability at 1 January 2019 were determined as being those of the underlying leased asset and the lease liability hitherto calculated under IAS 17.

As part of the transition to IFRS 16, the Group recognised additional right-of-use assets and lease liabilities in the balance sheet (in addition to the existing finance leases at 31 December 2018). The transition impacts are summarised below.

(in € million)	As of 1 January 2019
Right-of-use assets recorded in "Property, plant and equipment"*	60.0
Lease liabilities recorded in current and non-current "Financial liabilities and derivatives"**	(60.4)
Balance sheet reclassification***	0.4

** This item does not include assets under IAS 17 recognised in the amount of €1.7 million at 31 December 2018.*

*** This item does not include finance lease liabilities under IAS 17 recognised in the amount of €1.9 million at 31 December 2018.*

****Reclassification of accrued expenses relating to the staggering of the rent-free period as a reduction in the value of the right-of-use asset, of which a €0.2 million impact on equity in the opening balance.*

To measure these lease liabilities on agreements previously classified as operating leases, the Group discounted the lease payments using the incremental borrowing rate at 1 January 2019. The weighted average rate was 4.02%.

The reconciliation between off balance sheet commitments relating to leases recorded in the financial statements at 31 December 2018 and lease liabilities under IFRS 16 is presented below:

(in € million)	**As of 1 January 2019**
Operating lease commitments as of 31 December 2018	46.7
Commitments to purchase services as of 31 December 2018*	3.2
Finance lease liabilities under IAS 17 as of 31 December 2018	1.9
Impact of optional periods not included in off-balance sheet commitments**	16.2
Discounting effect	(8.7)
Exemptions for low-value and short-term leases	(0.6)
Others	3.7
Lease liabilities as of 1 January 2019 under IFRS 16* **	**62.4**

** Off balance sheet commitments recorded in the notes to the last annual financial statements (Note 23.1.2 - the "Non-cancellable purchase commitments/Services" line relating mainly to logistics platforms).*

*** Mainly relating to warehouses in Italy.*

**** This item includes finance lease liabilities under IAS 17 recognised in the amount of €1.9 million at 31 December 2018.*

2.2.2 Impacts on the financial statements for 2019

On application of IFRS 16 to leases previously classified as operating leases, the Group recorded €52.3 million of right-of-use assets, €53.3 million of lease liabilities and €0.9 million of deferred tax assets at 31 December 2019.

Also with regard to these leases, the Group recognised depreciation costs and interest expenses instead of the rental expenses associated with operating leases. It thus recognised €18.8 million of depreciation costs and €2.1 million of interest expenses in respect of these leases.

The impact of IFRS 16 on information relating to operating segments is provided in Note **4.2** (Impact on adjusted EBITDA).

2.3 ESTIMATES AND JUDGEMENTS

In preparing consolidated financial statements, Management relies on estimates and assumptions that may affect the amounts of assets, liabilities, income and expenses, as well as the information presented in the notes. These estimates and assumptions are reviewed on a regular basis to ensure that they are reasonable in light of the Group's history, economic conditions and the information available to the Group. Actual results may differ from the estimates used. Major sources of estimation uncertainty may result in significant adjustments to the amounts of assets and liabilities in the subsequent year. Besides making use of estimates, the Group's

Management must exercise judgement in selecting and/or applying the most appropriate accounting treatment for certain transactions and activities and in defining the terms of its application.

Management's main estimates and judgements in the preparation of these consolidated financial statements were as follows:

Management's main judgements and estimates	Note
Assessment of the recoverable value of goodwill and fixed assets	9 & 12
Recoverability of deferred tax assets	8
Measurement of provisions and other financial liabilities	18.1
Measurement of the value of rights-of-use and finance leases	2.4
Measurement of defined benefit obligations and plan assets	19.1
Measurement of put liabilities on non-controlling interests	18.2

2.4 VALUATION PRINCIPLES

The consolidated financial statements were prepared on a historical cost basis with the exception of:

- Certain financial assets and liabilities measured using the fair value model (**Note 21**);
- Defined benefit plan assets (**Note 19.1**).

ACCOUNTING PRINCIPLES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The methods used to measure the fair value of financial and non-financial assets and liabilities as defined above are classified according to the following three fair value levels:

- **Level 1:** fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** fair value measured using inputs other than quoted prices in active markets, which are observable either directly (price) or indirectly (price-derived data);
- **Level 3:** fair value inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2.5 TRANSACTIONS IN FOREIGN CURRENCIES

ACCOUNTING PRINCIPLES

The Group's presentation currency is the euro, which is also the functional currency of the Group's parent company. Each Group entity determines its own functional currency, and all its financial transactions are then measured in that currency.

The financial statements of subsidiaries that have a functional currency other than the presentation currency are translated using the closing rate method:

- Assets and liabilities, including goodwill and fair value adjustments in the context of acquisition accounting, are translated into euros at the closing rate, i.e. the daily rate on the closing date;
- Statement of income and cash flow items are translated into euros at the average rate for the period, unless significant differences are recognised.

The resulting foreign currency translation differences are recognised in other comprehensive income, with a corresponding entry in the translation reserve in shareholders' equity. When a foreign entity is sold, the cumulative amount of foreign currency translation differences in equity relating to that entity is reclassified to profit or loss.

Transactions denominated in foreign currency are converted into euros at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the closing rate, and the resulting translation differences are recognised in the statement of income in financial income or expense. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate applicable on the day of the transaction.

Differences arising from the translation of borrowings, loans or advances that are substantially part of the net investment in a foreign entity are recognised in other comprehensive income, with a corresponding entry in the translation reserve in equity, and reclassified to profit or loss on disposal of the net investment.

Hyperinflation in Argentina

In 2018, Argentina was considered a "hyperinflationary" economy within the meaning of IFRS, rendering IAS 29 *Financial Reporting in Hyperinflationary Economies* applicable.

Accordingly, the Group has applied IAS 29 since 1 January 2018. Adoption of IAS 29 requires the restatement of the non-monetary assets and liabilities, equity and statement of income of the Group's Argentine subsidiary in order to reflect the change in the purchasing power of its functional currency. The gain or loss on the net monetary position is included in financial income or expense. Moreover, the financial information of the Group's Argentine subsidiary is converted into euros by applying the exchange rate prevailing on the closing date of the relevant period.

The cumulative foreign currency translation differences relating to the Argentine subsidiary at 1 January 2018 have been transferred to the reserve since that date. The Group will apply the final position adopted by the IASB's Interpretations Committee once it has been published.

The rates selected for the main currencies were as follows:

	2019		2018	
	Closing rate	Average rate	Closing rate	Average rate
Brazilian real (EUR/BRL)	4.5	4.41	4.43	4.31
Argentine peso (EUR/ARS)*	67.14	53.76	43.13	32.89
Russian rouble (EUR/RUB)	69.48	72.46	79.56	74.02
Ukrainian hryvnia (EUR/UAH)	26.71	28.93	31.69	32.10

* In accordance with IAS 29, all financial information is translated at the closing rate for subsidiaries located in a country considered to be "hyperinflationary" (applicable to Argentina since 2018).

NOTE 3 – CONSOLIDATION METHODS AND SCOPE OF CONSOLIDATION

ACCOUNTING PRINCIPLES

Basis of consolidation

The consolidated financial statements include the assets and liabilities, income and cash flows of the Company and its subsidiaries. All balances and reciprocal transactions between companies controlled by the Group are eliminated.

Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed or entitled to variable returns because of its relationship with the entity and has the ability to affect those returns because of the power it holds over it. The interests acquired in these entities are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which the control ceases to be exercised. See **Note 3.3** for more information on associated companies.

3.1 CHANGES IN THE SCOPE OF CONSOLIDATION

ACCOUNTING PRINCIPLES

Business combinations

Business combinations are accounted for in accordance with IFRS 3 *Business Combinations* using the acquisition method.

Goodwill corresponds to:

- the fair value of the consideration transferred; plus
- the amount recognised for any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of any pre-existing equity interest in the acquired company; less
- the net recognised amount (generally at fair value) of the identifiable assets acquired and liabilities assumed.

When the difference is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration for the acquisition is measured at fair value, which is the sum of the fair values, at the acquisition date, of the assets transferred, the liabilities incurred or assumed, and the equity securities issued in exchange for the acquisition of control of the acquired company. When the consideration transferred by the Company in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at fair value. Subsequent changes in the fair value of the contingent consideration corresponding to debt instruments are recognised in profit or loss.

Acquisition-related costs are recorded as expenses when incurred and recognised in “Items related to acquisitions” in the consolidated statement of income.

At the acquisition date, the Group recognises identifiable assets acquired and liabilities assumed (identifiable net assets) in the subsidiary, based on their fair value at that date (with some exceptions). The assets and liabilities recognised may be adjusted for a maximum of 12 months from the acquisition date, based on new information gathered on the facts and circumstances existing at the acquisition date.

For business combinations resulting in less than a 100% interest, the non-controlling interest in the acquired company (i.e. any interest that gives its holders the right to a share of the net assets of the acquired company), as at the acquisition date, is measured:

- either at fair value, so that a portion of the goodwill recognised at the time of the combination is allocated to the non-controlling interest (the "full goodwill" method);
- or based on the share of the identifiable net assets of the acquired company, so that only goodwill attributable to the Group is recognised (the "partial goodwill" method).

The method applied is selected according to factors specific to each transaction.

In 2015, the Company, via its Verallia Packaging subsidiary, acquired substantially all the entities and operations of the Saint-Gobain Group's Packaging division; non-controlling interests acquired were measured according to the "partial goodwill" method.

Changes in equity interests (%) in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a gain or loss of control are accounted for as equity transactions – in other words, as transactions with shareholders acting in that capacity. The difference between the fair value of any consideration paid and the carrying amount of the share of the subsidiary's net assets acquired or disposed of is recorded in equity.

Commitments to purchase non-controlling interests

Commitments to purchase non-controlling interests result in the recognition in the financial statements of a liability in "Provisions and other non-current financial liabilities", which is the present value of the estimated exercise price of the put option on non-controlling interests, with a corresponding reduction in non-controlling interests and equity attributable to owners of the parent company for the balance, if any. Any subsequent change in the fair value of the liability is recognised through an adjustment to equity.

Assets and liabilities held for sale and discontinued operations

When the Group expects to recover the value of an asset or group of assets through its sale rather than its use, the asset in question is presented separately on the "Assets held for sale" line in the statement of financial position in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Liabilities related to such assets, if any, are also presented on a separate line of the statement of financial position ("Liabilities related to assets held for sale").

Assets classified as such are measured at the lesser of the carrying amount or the fair value, less the cost of selling them. Assets classified as assets held for sale cease to be depreciated from the date they qualify for classification as assets held for sale.

A discontinued operation is either a component of the Group from which it has separated or an activity that is classified as held for sale and:

- which represents a separate major line of business or geographical area of operations; and

- is part of a single, coordinated plan to dispose of a separate line of business or geographical area of operations; or
- is an activity acquired exclusively for resale.

When an activity is classified as a discontinued operation, the comparative statement of income and statement of cash flows are restated as if the activity had met the criteria for an activity that was discontinued from the start of the comparative period.

In these financial statements, no non-current assets met the criteria for classification as assets held for sale and none of the businesses sold during the year met the criteria for classification as a discontinued operation.

ESTIMATES AND ASSUMPTIONS USED BY MANAGEMENT

Determination of the fair value of assets and liabilities at the acquisition date involves the Group making estimates using several methods with the help of independent valuation experts. These estimates are based on a number of assumptions and assessments.

The significant assumptions used to determine the allocation of fair value include the following valuation methods: the cost approach, the revenue approach and the market approach. These methods are based on cash flow projections and related discount rates, sector indices, market prices for replacement cost and comparable market transactions.

3.1.1 Changes in 2019

There were no significant changes to the consolidation scope other than the reorganisation measures taken relating to the initial public offering described in Note 1.2 “Highlights”.

3.1.2 Changes in 2018

3.1.2.1 Disposal of Alver

In May 2018, the disposal of the Group’s subsidiary in Algeria to a local industrialist was finalised for a token price of 600,000 dinars (approximately €4,000). This resulted in a loss of €3.6 million recognised in “Other operating income and expenses” in the year ended 31 December 2018, mainly relating to the reclassification of the translation reserve to profit or loss (**Note 6.2**). For the record, the subsidiary’s property, plant and equipment had been fully impaired in 2017 in the amount of €35 million (**Note 6.2**).

3.1.2.2 Disposal of IVN

On 26 October 2018, the Group finalised the sale of its stake in the associated company IVN (Brazilian company “Indústria Vidreira do Nordeste”). In 2018, a profit of €14 million was recorded as a result of this sale (**Note 18.1.5**).

3.2 LIST OF THE MAIN CONSOLIDATED COMPANIES

Entity	Country	% interest as of 31 December		
		2019	2018	Consolidation method
Verallia SA	France	100.0%	100.0%	Parent company
Horizon Holdings Germany	Germany	100.0%	97.1%	Full consolidation
Verallia Deutschland (ex SG Oberland Aktiengesellschaft)	Germany	100.0%	97.1%	Full consolidation
Rayen-Cura SAIC	Argentina	60.0%	58.2%	Full consolidation
Verallia Brasil (ex SG Vidros SA)	Brazil	100.0%	97.1%	Full consolidation
Inversiones Verallia Chile (ex Inversiones SG Chili)	Chile	100.0%	97.1%	Full consolidation
Verallia Chile (ex SG Envases)	Chile	100.0%	97.1%	Full consolidation
Horizon Holdings Vitrum Spain	Spain	100.0%	97.1%	Full consolidation
Verallia Spain (ex SG Vicasa)	Spain	99.9%	97.0%	Full consolidation
Etablissements René Salomon	France	100.0%	97.1%	Full consolidation
Everglass	France	100.0%	97.1%	Full consolidation
Horizon Holdings I	France	Merged*	100.0%	/
Horizon Holdings II	France	Merged*	100.0%	/
Saga Décor	France	100.0%	97.1%	Full consolidation
Société Charentaise de Décor	France	100.0%	97.1%	Full consolidation
Verallia France (ex SG Emballage)	France	100.0%	97.1%	Full consolidation
Verallia Packaging (Horizon Holdings III)	France	100.0%	97.1%	Full consolidation
VOA Verrerie d'Albi	France	100.0%	97.1%	Full consolidation
Verallia Italia (ex Saint-Gobain Vetri Spa)	Italy	100.0%	97.1%	Full consolidation
Verallia Polska (ex Euroverlux Sp. Z.o.o)	Poland	100.0%	97.1%	Full consolidation
Verallia Portugal (ex SG Mondego SA)	Portugal	99.9%	97.0%	Full consolidation
Kavminsteklo Zao	Russia	98.6%	95.8%	Full consolidation
Zao Kamyshinsky Steklotarny ZA	Russia	96.5%	92.8%	Full consolidation
Verallia Ukraine (ex Consumers SKLO Zorya)	Ukraine	100.0%	93.9%	Full consolidation

**As mentioned in Note 1.2 "Highlights", the companies Horizon Holdings I and Horizon Holdings II were merged into Verallia SA on 7 October 2019.*

3.3 INVESTMENTS IN EQUITY-ACCOUNTED COMPANIES

ACCOUNTING PRINCIPLES

Associates

Associated companies are companies over which the Group exercises significant influence, i.e. the power to participate in financial and operating policy decisions, without exercising control or joint control over such policies. They are recognised in the consolidated financial statements using the equity method.

Equity method

Under the equity method, an investment in an associate must initially be recognised at the acquisition cost and then adjusted based on the Group's share of the profit or loss and, where applicable, other comprehensive income of the associated company as well as dividends. Goodwill is included in the carrying amount of the investment. Any losses or reversals of the value of investments and any gains or losses on the sale of investments in companies accounted for under the equity method are presented under "Share of net income of associates" in the statement of income.

Gains from transactions with equity-accounted entities are eliminated via a corresponding entry of equity-accounted securities in proportion to the Group's interest in the company. Losses are eliminated in the same way as gains, but only insofar as they are not indicative of impairment.

The Group holds several interests in associates, none of which is of a significant size individually:

Entity	Country	Main % interest as of 31 December		Consolidation method
		2019	2018	
Vetreco SRL	Italy	40.00%	39.08%	Equity method
Cogeneradores Vidrieros	Spain	25.75%	25.19%	Equity method

Changes in investments in associates break down as follows:

(in € million)	Year ended 31 December	
	2019	2018
Opening		
Gross amount	0.6	5.6
Impairment	-	-
Investments in associates – Net amount	**0.6**	**5.6**
Changes during the year		
Translation differences	-	-
Transfers, share issues and other movements	0.7	(3.3)
Dividend paid	-	-
Share of profit (loss) of associates	(0.7)	(1.7)
Total changes	**-**	**(5.0)**
Closing		
Gross amount	0.6	0.6
Impairment	-	-
Investments in associates – Net amount	**0.6**	**0.6**

The table below presents the main financial information concerning associated investments (presented at 100%):

(in € million)	Year ended 31 December	
	2019	2018
Equity	(1.6)	(1.3)
Total assets	39.7	39.2
Total revenue	48.3	42.5
Net profit (loss) for the year	**(0.5)**	**(1.7)**

NOTE 4 – SEGMENT INFORMATION

ACCOUNTING PRINCIPLES

Definition of operating segments

In accordance with IFRS 8 *Operating Segments*, segment reporting must reflect the operating segments for which results are regularly reviewed by the chief operating decision-maker (CODM) in order to make decisions about resources to be allocated to the segments and to assess their performance.

4.1 BASIS FOR SEGMENTATION

In accordance with the provisions of IFRS 8 *Operating Segments*, the Group has identified the following 3 operating segments corresponding to the geographical areas in which the assets are located:

- **Southern and Western Europe** including production sites located in France, Italy, Spain, Portugal and Algeria (until May 2018). Verallia's operations in this region are focused mainly on bottles of still and semi-sparkling wines and spirits containers, market segments characterised by export-driven growth.
- **Northern and Eastern Europe** including sites located in Germany, Russia, Poland and Ukraine. The Group's activities in Northern and Eastern Europe are focused mainly on beer bottles, particularly in Germany, as well as food jars and bottles, largely for local markets.
- **Latin America** including sites located in Brazil, Argentina and Chile. The Group's activities in Latin America are focused mainly on bottles for still wines, a market segment dominated by exports, as well as beer bottles, particularly in Brazil.

The above operating segments correspond to reporting segments in the absence of their consolidation by the Group.

This sector breakdown reflects the Group's management organisation set up at the time of the initial public offering and its internal reporting system as submitted to the Board of Directors, Verallia's chief operating decision-maker ("CODM"). This reporting method makes it possible to assess the performance of the operating segments, based on adjusted EBITDA, and to decide on the allocation of resources, particularly investments.

4.2 Key performance indicators

The Group uses the following aggregates to assess the performance of the operating segments presented:

- revenue, corresponding to the revenue presented in the consolidated financial statements.
- capital expenditure, corresponding to the Group's acquisitions of property, plant and equipment and intangible assets.
- adjusted EBITDA, an indicator for monitoring the underlying performance of businesses adjusted for certain expenses and/or non-recurring items liable to distort the company's performance.

Adjusted EBITDA is calculated based on operating profit adjusted for depreciation, amortisation and impairment, restructuring costs, acquisition and M&A costs, hyperinflationary effects, management share ownership plans, subsidiary disposal-related effects and contingencies, plant closure costs and other items.

As it is an aggregate not directly presented in the consolidated statement of income, a reconciliation with the consolidated financial statements prepared under IFRS is presented in accordance with the provisions of IFRS 8:

(in € million)	Notes	**Year ended 31 December**	
		2019	2018
Net profit (loss) for the year		**124.6**	**48.5**
Net financial income		115.9	146.8
Income tax		53.8	24.2
Share of net result of associates		0.7	1.7
Operating profit		**295.1**	**221.2**
Depreciation, amortisation and impairment	A	283.5	298.2
Restructuring costs	B	2.9	7.2
Acquisition and M&A costs	C	(2.1)	0.2
IAS 29, Hyperinflation (Argentina)		1.6	2.5
Management share ownership plan and associated costs	D	11.5	5.7
Disposal and subsidiary risks	E	-	(8.8)
Closure of Sao Paulo plant	F	2.4	11.4
Other	G	20.3	5.8
Adjusted EBITDA		**615.2**	**543.3**

A. Includes depreciation and amortisation of intangible assets and property, plant and equipment (**Note 5.2**), amortisation of intangible assets acquired through business combinations (**Note 6.1**) and depreciation of property, plant and equipment (**Note 6.2**).

B. Corresponds to restructuring costs (**Note 6.2**).

C. Corresponds to acquisition and M&A costs (**Note 6.1**). In 2019, this mainly includes the reversal of a provision for accrued RETT expenses recognised as part of the acquisition of the Packaging division from Compagnie de Saint-Gobain in 2015.

D. Corresponds to share-based compensation plans (**Notes 5.2 and 19.3**).

E. Corresponds mainly to the effects relating to the disposals of IVN and Alver in 2018 (**Notes 6.2**).

F. Corresponds to the closure of the Sao Paulo plant (Brazil), and in 2018 includes the associated restructuring expenses.

G. Corresponds in 2019

- to the impact in France of past service costs following changes to the national collective agreement covering glass machine manufacturing industries in the amount of €7 million.
- to IPO costs in the amount of €10.3 million.

Note that the Group does not monitor any segment liability indicator as financial debt is managed centrally and not at the level of the three reporting segments.

4.3 Segment information

(in € million)	Notes	Year ended 31 December 2019				
		Northern and Eastern Europe	Southern and Western Europe	Latin America	Eliminations	Group total
Revenue from activities with external customers	5.1	567.6	1 753.7	264.6	-	**2 585.9**
Inter-segment revenue		12.7	2.5	-	(15.2)	-
Total segment revenue		**580.3**	**1 756.2**	**264.6**	**(15.2)**	**2 585.9**
Adjusted EBITDA	**4.2**	**124.9**	**411.5**	**78.8**	**-**	**615.2**
o/w impact of IFRS 16		2.4	16.6	1.2	-	20.2
Capital expenditure*		**41.2**	**166.8**	**44.5**	**-**	**252.5**

*Excluding rights of use under IFRS 16

(in € million)	Notes	Year ended 31 December 2018				
		Northern and Eastern Europe	Southern and Western Europe	Latin America	Eliminations	Group total
Revenue from activities with external customers	5.1	520.9	1 648.9	246.0	-	**2 415.8**
Inter-segment revenue		14.1	42.8	1.0	(57.9)	-
Total segment revenue		**535.0**	**1 691.7**	**247.0**	**(57.9)**	**2 415.8**
Adjusted EBITDA	**4.2**	**110.2**	**356.5**	**76.7**	**-**	**543.3**
Capital expenditure		**34.3**	**137.1**	**53.6**	**-**	**225.0**

4.4 Breakdown of revenue by "end market"

In accordance with IFRS 8.32, the Group presents below a breakdown of revenue according to expected uses of glass packaging (notion of "end market" as defined internally):

(in € million)	Year ended 31 December	
	2019	**2018**
Still wines	838.8	799.7
Sparkling wines	307.5	287.8
Spirits	318.6	290.0
Beers	328.5	289.1
Food	425.7	404.9
Soft drinks	300.3	275.7
Others	66.5	68.6
Revenue	**2 585.9**	**2 415.8**

4.5 ENTITY-LEVEL INFORMATION

In accordance with IFRS 8.33, revenue generated in France and internationally is presented in **Note 5.1.1.**

Moreover, the geographical breakdown of non-current assets other than goodwill, customer relationships and fair value adjustments to property, plant and equipment, as well as financial instruments, deferred tax assets and post-employment benefit assets, is presented below.

(in € million)	Year ended 31 December	
	2019	2018
France	288.7	300.2
Italy	330.2	273.5
Spain	198.7	178.5
Germany	190.7	186.6
Other countries	285.7	253.5
Total	**1 294.0**	**1 192.3**

The Group does not monitor customer relationships by country so they were excluded from the analysis of non-current assets by country.

4.6 INFORMATION ABOUT THE MAIN CUSTOMERS

None of the Group’s customers individually accounted for more than 10% of revenue in 2019 or 2018.

NOTE 5 – OPERATING INCOME AND EXPENSES

5.1 REVENUE

ACCOUNTING PRINCIPLES

Verallia's operations mainly concern the manufacture of glass packaging for beverages and food products (bottles and jars).

In accordance with commercial practices and norms in the Group's markets, commercial agreements with customers generally do not involve a commitment in respect of purchase volumes or significant penalties in the event of cancellation. In addition, no significant initial lump sum payments are made. Thus, each order combined with a possible framework agreement represents a contract within the meaning of IFRS 15. Contracts generally run for less than one year and so, under the terms of IFRS 15, the order book is not presented. The costs of obtaining contracts are not material.

Each agreement contains a performance obligation corresponding to the delivery of bottles and jars. The revenue generated from the sale of bottles and jars is recognised when the control of the asset is transferred to the customer, i.e. when the product is shipped or delivered, according to the incoterms.

In its operations, the Group does not resort to any intermediaries when selling goods to its customers other than transport services. As a result, agent/principal analysis is not relevant.

Revenue is the amount receivable for goods provided in the normal course of business, excluding amounts collected on behalf of third parties, such as sales taxes, goods and services taxes, and value added taxes.

Moulds are recognised as property, plant and equipment insofar as their purchase does not constitute a separate performance obligation (no transfer of control to customers).

Contracts have no funding component since the time between revenue recognition and payment is generally short. As a result, the Group does not adjust the transaction price based on the time value of money. Moreover, contract assets and liabilities are not significant.

5.1.1 Revenue by country of origin

(in € million)	Year ended 31 December	
	2019	2018
France	760.0	718.9
Italy	514.5	481.0
Spain	388.7	356.2
Germany	407.3	385.0
Other countries	515.4	474.7
Total revenue	**2 585.9**	**2 415.8**

The country of origin is the location of the entity invoicing the sales.

5.2 EXPENSES BY FUNCTION AND BY NATURE

ACCOUNTING PRINCIPLES

Cost of sales

Cost of sales includes all costs directly or indirectly related to the products sold. The main components are the cost of raw materials, energy, wages and transport, and the depreciation of production equipment.

Selling, general and administrative expense

Selling, general and administrative expense includes all expenses relating to general management, marketing, finance and accounting, computer, legal, human resources, technical, and research and development activities.

The breakdown of cost of sales and selling, general and administrative expense by type of expense is as follows:

(in € million)	Notes	Year ended 31 December	
		2019	2018
Raw materials, energy, transport and other production costs		(1 506.8)	(1 410.3)
Personnel expenses	A	(485.1)	(477.0)
Depreciation and amortisation	B	(222.5)	(230.6)
Total cost of sales and selling, general and administrative expenses	**C**	**(2 214.4)**	**(2 117.9)**

A. Personnel expenses include:

- €10.5 million in 2019 and €4.5 million in 2018 in respect of costs relating to post-employment benefits (**Notes 19.1 and 19.2**).
- €11.5 million in 2019 and €5.7 million in 2018 in respect of costs relating to share-based compensation plans (**Note 19.3**).

B. Includes amortisation of intangible assets and property, plant and equipment (**Notes 10 and 11**), with the exception of customer relationships which are recognised in "Acquisition-related items".

C. Includes research and development expenses of €4.9 million in 2019 and €5.1 million in 2018.

NOTE 6 - OTHER OPERATING INCOME AND EXPENSES

6.1 ACQUISITION-RELATED ITEMS

ACCOUNTING PRINCIPLES

Acquisition-related items mainly cover the impact of the adjustments recognised in connection with the purchase price allocation (amortisation of assets exclusively recognised through business combinations, such as customer relationships), as well as acquisition costs including miscellaneous fees and due diligence costs in connection with actual or prospective acquisitions. These items are presented separately from "selling, general and administrative expenses" on account of their materiality.

(in € million)		Year ended 31 December	
	Notes	2019	2018
Acquisition and M&A costs	A	2.1	(0.2)
Amortisation of intangible assets acquired through business combinations	B	(61.5)	(61.6)
Acquisition-related items		**(59.4)**	**(61.8)**

A. The "Acquisition and M&A costs" line consists primarily of the reversal of the provision (€2.1 million) for German real estate transfer tax (RETT) relating to the acquisition made in 2015.

B. Represents the amortisation of customer relationships (original gross amount of €740 million) over a 12-year useful life.

6.2 OTHER OPERATING INCOME AND EXPENSES

ACCOUNTING PRINCIPLES

Other operating income and expenses reflect significant events occurring during the period that may distort the reading of the company's performance. They mainly include gains and losses on disposals, impairment losses, significant litigation outside the normal course of business, restructuring costs incurred upon the disposal or closure of operations, and costs in relation to downsizing measures.

Other operating income and expenses break down as follows:

(in € million)		Year ended 31 December	
	Notes	2019	2018
Gains on disposals of assets	A	3.2	0.6
Reversals of asset impairment	B	1.3	13.6
Other income		**4.5**	**14.2**
Restructuring costs	C	(2.9)	(10.7)
Losses on disposals of assets and scrapped assets		(1.9)	(7.2)
Impairment of assets	C	(2.0)	(10.3)
Others	D	(14.7)	(0.9)
Other expenses		**(21.5)**	**(29.1)**
Other expenses – net		**(17.0)**	**(14.9)**

A. At 31 December 2019, gains from asset disposals mainly concerned insurance refunds received relating to asset claims.

B. In 2018: mainly relating to the sale of Brazilian associate IVN, which resulted in the reversal of a loan impairment recorded in 2016 (**Note 18.1.5**).

C. In 2018: mainly relating to the costs of closing the Sao Paolo plant in Brazil.

D. For financial year 2019, “Others” corresponds mainly to €10.3 million of IPO costs.

NOTE 7 – FINANCIAL INCOME AND EXPENSE

ACCOUNTING PRINCIPLES

Financial income and expense mainly includes interest expense on borrowings, accretion of financial assets and provisions, financial expense related to pension plans and other post-employment benefits, factoring fees, bank charges, changes in the fair value of derivative instruments not designated as hedging instruments, and unrealised and realised foreign exchange gains and losses. It also includes interest on finance leases for financial year 2018 along with interest on lease liabilities determined in accordance with IFRS 16 for all leases (excluding exemptions) for financial year 2019.

Financial income is mainly comprised of cash and cash equivalents.

(in € million)	Notes	Year ended 31 December	
		2019	2018
Interest expense excluding lease liabilities	A	(73.5)	(96.1)
Interest expense related to lease liabilities		(2.1)	-
Amortisation of debt issuance costs, and other	B	(18.2)	(21.4)
Other debt-related gains and losses	C	3.1	3.5
Financial income from cash and cash equivalents		9.3	9.4
Cost of net debt*		**(81.4)**	**(104.6)**
Refinancing costs	D	(23.0)	(31.0)
Foreign exchange gains and losses	E	(0.2)	(4.3)
Net interest expense related to pension plans and other benefits	19.1	(1.8)	(1.8)
Profit (loss) on net monetary position in Argentina (IAS 29)	2.5	(9.5)	(5.0)
Net financial income (expense)		**(115.9)**	**(146.8)**

***** The cost of net debt includes the amount of interest expense (including interest on finance leases in 2018 and interest on lease liabilities under IFRS 16 in 2019), the amortisation of debt issuance costs, factoring fees, other bank charges, other debt-related gains and losses and financial income on cash deposits, but does not include refinancing costs.

The main items of financial income and expense are attributable to:

A. interest expenses on borrowings (**Note 17**). This item decreased largely because of refinancing deals in the second half of financial year 2018 and the refinancing arranged on very attractive terms at the time of the initial public offering, which greatly reduced net financial expenses.

B. the amortisation of funding costs and debt issuance premiums, as well as factoring fees and other bank charges,

C. the amortisation under IFRS of the fair value of the floor,

D. the accelerated amortisation of debt issuance costs relating to repaid borrowings,

E. the foreign exchange impact of foreign currency borrowings and the effects of variations in foreign exchange derivatives.

NOTE 8 – INCOME TAX

ACCOUNTING PRINCIPLES

Income tax expense represents the sum of current tax and deferred tax.

Tax expense is calculated based on the tax laws in force or substantively in force as of the reporting date in the countries where the Company and its subsidiaries operate.

The amount of current tax payable (or recoverable) is determined based on the best estimate of the amount of tax that the Group expects to pay (or recover) and reflecting any potential associated uncertainties.

The Group is subject to income tax in France, Spain, Germany, Italy and several other jurisdictions.

Current tax and deferred tax are recognised in profit or loss unless they relate to items that have been recognised in other comprehensive income or directly in equity. If current tax or deferred tax arises from the initial recognition of a business combination, the tax effect is included in the recognition of the business combination.

Deferred tax assets and liabilities are recognised on the basis of temporary differences between the carrying amounts of assets and liabilities on the balance sheet and their respective tax values (with some exceptions).

The impact of a change in tax rates and tax laws on deferred income tax assets and liabilities is generally recognised as tax income/expense over the period that the change was substantively in effect. Deferred tax assets and liabilities are measured at the expected tax rates for the period of realisation of the asset or settlement of the liability, based on tax rates and tax laws prevailing or substantively in force on the reporting date.

Deferred tax assets are recognised in respect of deductible temporary differences, unused tax losses and unused tax credits only if it is probable that the Group will have sufficient future taxable profits against which they can be used. They are reviewed at each reporting date and are impaired if it no longer appears likely that sufficient future taxable income will be available. To determine whether deferred tax assets should be recognised in respect of tax loss carryforwards, the Group applies various criteria that take into account the likely recovery period based on economic projections and the strategy for recovering tax losses over the long term applied in each country.

ESTIMATES AND ASSUMPTIONS MADE BY MANAGEMENT

Management's judgement is necessary to determine the extent to which tax losses can be recovered by the Group, resulting in the recognition of a deferred tax asset. In assessing the recognition of deferred tax assets, Management considers whether it is more likely than not that they will be used. Ultimately, deferred tax assets will be used if sufficient taxable income is available during the periods in which the temporary differences become deductible. Estimates of taxable profit and the use of tax loss carryforwards are based on the earnings forecast in the budget, the medium-term plan and, if necessary, supplementary estimates.

8.1 INCOME TAX

The table below shows the breakdown of income tax expense:

(in € million)	Year ended 31 December	
	2019	2018
France	(8.2)	(6.1)
Outside France	(62.8)	(51.6)
Current tax	**(71.0)**	**(57.8)**
France	13.0	24.3
Outside France	4.2	9.4
Deferred tax	**17.2**	**33.5**
Total income tax	**(53.8)**	**(24.2)**

8.2 ANALYSIS OF DEFERRED TAXES ON THE BALANCE SHEET

In the consolidated balance sheet, changes in net deferred taxes are as follows:

(in € million)	Year ended 31 December	
	2019	2018
Opening	**(149.0)**	**(180.9)**
Recognised in profit or loss	17.2	33.5
Recognised in equity	7.8	5.4
Other movements	(0.3)	(7.0)
Closing	**(124.3)**	**(149.0)**

The table below shows net deferred taxes by type:

(in € million)	Year ended 31 December	
	2019	**2018**
Deferred tax assets	42.3	43.6
Deferred tax liabilities	(166.6)	(192.6)
Net deferred tax	**(124.3)**	**(149.0)**
Pensions	19.7	15.9
Depreciation and amortisation, accelerated amortisation and regulated provisions	(206.7)	(225.6)
Tax loss carryforwards	34.5	35.4
Other	28.2	25.3
Total	**(124.3)**	**(149.0)**

At 31 December 2019, the deferred tax losses carried forward recognised as assets were generated mainly by the French tax group in the amount of €31.6 million (€31 million at 31 December 2018). These tax losses can be carried forward indefinitely. The Group's business plans indicate that it will be possible to use the tax loss carryforwards as from financial year 2020 for a period of approximately 3 years.

Taking into account the improved prospect of generating taxable earnings in the short term in Russia, deferred tax assets were recognised for a portion of the tax losses. Unrecognised deferred tax assets mainly concern Chile and Russia in a total amount of approximately €15.7 million (€15 million at 31 December 2018).

8.3 TAX PROOF

The reconciliation between the income tax shown in the consolidated statement of income and the theoretical tax that would be incurred based on the rate prevailing in the country where the parent company of the Group (France) resides is as follows:

(in € million)	Notes	Year ended 31 December	
		2019	**2018**
Profit (loss) before tax		**179.2**	**74.4**
Tax rate in France (%)		34.43%	34.43%
Theoretical tax expense		*(61.7)*	*(25.6)*
Difference in tax rates between countries	A	13.5	8.5
Deferred tax assets		1.6	0.3
Permanent differences	B	2.9	1.1
Tax credit		-	1.0
Tax not levied on taxable profits	C	(8.6)	(8.4)
Impact of changes in local tax rates		-	(0.1)
Withholding tax		(2.1)	(1.5)
Other		0.6	0.4
Total income tax		**(53.8)**	**(24.2)**

A. This item corresponds mainly to improved earnings generation at subsidiaries with lower tax rates.
B. Permanent differences consist mainly of the consolidation of net financial expenses on borrowings.
C. These taxes mainly include the CVAE tax in France and IRAP tax in Italy.

8.4 Tax consolidation

The calculation of income tax expense takes into account the specific local rules applicable to Verallia entities, including the tax consolidation adopted by Verallia in France and Spain, and in Germany under the *Organschaft* rules.

In France, Verallia SA is the head of the French tax group.

8.5 Uncertainty regarding tax treatment

Non-current liabilities relating to uncertain tax positions include risk estimations, litigation and disputes, be they actual or probable, regarding the calculation of income tax. Any of the Group's entities may be subject to a tax audit or even be asked by the local tax authorities to make adjustments. These requested adjustments along with any uncertain tax positions identified by the Group give rise to the recognition of a liability, the amount of which is reviewed regularly in accordance with the criteria set out in the IFRIC 23 interpretation *Uncertain tax positions*.

Following application of IFRIC 23, tax risk provisions were reclassified to current tax liabilities in the amount of €9.5 million at 1 January 2019. These provisions amounted to €7.8 million at 31 December 2019 and mainly concerned notifications of income tax adjustments received from the tax authorities. No other material uncertainty regarding tax treatment was identified.

NOTE 9 – GOODWILL

ACCOUNTING PRINCIPLES

At the acquisition date, goodwill is measured in accordance with the accounting standards applicable to business combinations, as described in **Note 3.1**.

For the purposes of impairment testing (**Note 12**), goodwill is allocated to the cash-generating unit (or groups of cash-generating units) benefiting from the synergies of the business combination, depending on the level at which the return on investments is monitored for internal management purposes. A Cash Generating Unit (CGU) is the smallest identifiable group of assets generating cash inflows that are largely independent of those generated by the entity's other assets. CGUs are defined on the basis of industrial organisation and correspond to countries.

In view of the Group's activities, goodwill is tested at the level of groups of CGUs corresponding to the Group's operating segments (**Note 4**).

Goodwill is not amortised, but it is tested for impairment at each year-end or whenever events or changes in circumstances indicate that it may be impaired.

Impairment losses affecting goodwill cannot be reversed. The methods applied by the Group to perform the impairment tests are described in **Note 12**.

The change in the net value of goodwill is as follows:

(in € million)	Northern and Eastern Europe	Southern and Western Europe	Latin America	Total
As of 31 December 2018				
Gross amount	99.8	378.5	73.7	552.0
Net amount	**99.8**	**378.5**	**73.7**	**552.0**
Changes during the year				
Translation differences	-	-	(1.1)	(1.1)
Total changes	**-**	**-**	**(1.1)**	**(1.1)**
As of 31 December 2019				
Gross amount	99.8	378.5	72.6	550.9
Net amount	**99.8**	**378.5**	**72.6**	**550.9**

NOTE 10 – OTHER INTANGIBLE ASSETS

ACCOUNTING PRINCIPLES

Other intangible assets mainly include customer relationships, patents, trademarks, software and development costs. They are carried at historical cost less accumulated amortisation and depreciation. Intangible assets acquired in a business combination are recorded at fair value at the acquisition date.

Customer relationships are measured using the multi-period excess earnings method, in accordance with IFRS 13 *Fair Value Measurement*. The useful life of customer relationships is estimated based on the period during which the economic benefits of the asset are consumed. Customer relationships identified during the acquisition of Saint-Gobain's glass packaging division in 2015 are being amortised on a straight-line basis over an estimated useful life of 12 years.

Costs incurred for in-house software development – mainly configuration, programming and testing costs – are recognised as intangible assets and are generally amortised over a period of 5 years.

Patents and purchased computer software are amortised over their estimated useful lives, not exceeding a period of 20 years for patents and 3 to 5 years for software.

Research costs are expensed in the year in which they are incurred. Process development costs meeting the recognition criteria of IAS 38 are included in intangible assets and amortised over their estimated useful lives (not exceeding 5 years) from the date of first sale of the products to which they relate.

Other intangible assets break down as follows:

(in € million)	Customer relationships	Software	Other	Total
As of 31 December 2018				
Gross amount	739.8	21.5	6.4	767.7
Cumulative amortisation and impairment	(196.8)	(10.8)	(0.8)	(208.4)
Net amount	**543.0**	**10.7**	**5.6**	**559.3**
Changes during the year				
Changes in scope and transfers	-	2.3	(2.1)	0.2
Acquisitions	-	0.5	5.7	6.2
Disposals	-	-	(0.4)	(0.4)
Translation differences	(0.6)	-	-	(0.6)
Amortisation and impairment	(61.5)	(3.5)	(0.5)	(65.5)
Total changes	**(62.1)**	**(0.7)**	**2.7**	**(60.1)**
As of 31 December 2019				
Gross amount	739.2	24.3	9.6	773.1
Cumulative amortisation and impairment	(258.3)	(14.3)	(1.3)	(273.9)
Net amount	**480.9**	**10.0**	**8.3**	**499.2**

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING PRINCIPLES

- **Property, plant and equipment**

Property, plant and equipment is recorded at historical cost less accumulated depreciation and impairment. This cost includes incidental expenses directly attributable to the acquisition. Property, plant and equipment acquired in a business combination is carried at its fair value on the acquisition date. Borrowing costs incurred for the construction and acquisition of property, plant and equipment requiring a long period of preparation before it can be used are included in the cost of the associated asset. Property, plant and equipment other than land is depreciated using the component approach in the straight-line method over the estimated useful lives of:

Main plants and office buildings	30-40 years
Other buildings	15-25 years
Machinery and other production equipment	5-16 years
Vehicles	3-5 years
Furniture, accessories, computer and office equipment	4-16 years

Equipment notably includes the moulds used in the product manufacturing process. They are depreciated on the basis of “beaten costs”, i.e. production units.

Government grants for purchases of property, plant and equipment are recognised as deferred income under “Other current liabilities” and recorded in the statement of income as the asset is amortised.

- **Leases**

Principles applicable starting from 1 January 2019

IFRS 16 defines a lease as a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

So it was decided that certain logistics management contracts including materials handling and inventory management services as well as the rental of sites dedicated to Verallia contain a lease component in that the dedicated site corresponds to an identified asset, the Group obtains substantially all the economic benefits generated by this asset and it has the right to control the use of the dedicated site.

The Group records a right-of-use asset and a lease liability on the lease’s start date. The right-of-use asset is initially measured at cost then, subsequently, at cost less any cumulative depreciation and any cumulative impairment losses. The amount may be adjusted according to any remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments outstanding at the lease’s start date. The discount rate applied corresponds to the interest rate implicit in the agreement or, if that rate cannot be readily determined, at the incremental borrowing rate (based on terms and not maturities). It is the latter that the Group generally applies as its discount rate.

The lease liability is subsequently increased by the interest expense and reduced by the amount of rent paid. It is remeasured in the event of an amendment to future lease payments resulting from a change in an index or rate used to determine those payments, a new estimate of the amounts expected to be paid under a residual value guarantee or, where applicable, a remeasurement on the exercise of an option to purchase the underlying asset or extend the lease term or on the non-exercise of a termination option (which thus become reasonably certain).

The Group has opted to analyse assets and liabilities together in order to determine its deferred taxes. A deferred tax liability was thus recognised for the net amount of taxable and deductible temporary differences.

The Group's main leases cover warehouses, offices, forklift trucks and other industrial equipment, and vehicles, with the Group owning substantially all its property, plant and equipment. They are essentially fixed-rent agreements (possibly with index clauses).

Lease terms for warehouses and offices vary by country.

The Group takes the following into account when assessing the reasonable certainty of renewal or termination options being exercised:

- the financial conditions for the optional periods (attractive rents),
- with regard to property, their location (strategically located near Group factories and/or client sites) and any alterations made to the fittings,
- in some cases, the Group's operational plans and their impact on the use of a leased property.

For equipment and vehicles, lease terms generally range from 3 to 6 years.

Principles applicable before 1 January 2019

In determining whether an agreement is, or contains, a lease, the substance of the agreement needs to be established along with the extent to which its operation depends on the use of an asset or specific assets, and if the agreement confers the right to use the asset in question.

In accordance with IAS 17, leases of property, plant and equipment under which substantially all the risks and rewards of ownership are transferred to the Group are classified as finance leases. The relevant assets are then capitalised at the start of the agreement at the present value of the minimum lease payments or the fair value of the leased assets, whichever is lower. The asset is depreciated over its useful life or over the life of the agreement, whichever is shorter. Finance lease obligations, net of finance costs covering future periods, are recorded as liabilities. Lease liabilities are then measured at amortised cost using the effective interest rate method.

Leases in which substantially all the risks and rewards of ownership are borne by the lessor are classified as operating leases. Rents are recognised in the statement of income on a straight-line basis over the term of the lease.

Property, plant and equipment break down as follows:

(in € million)	Notes	Year ended December 31, 2019	January 1st, 2019
Assets owned	A	1 247.0	1 197.8
Assets leased	B	52.3	61.7
Property, plant and equipment		**1 299.3**	**1 259.5**

A. The property, plant and equipment owned by the Group break down as follows:

(in € million)	Land	Buildings	Machinery and equipment	Assets in progress	Total
As of 31 December 2018					
Gross amount	64.7	222.4	1 485.4	151.7	1 924.2
Cumulative depreciation and impairment	(0.8)	(67.0)	(654.4)	(2.5)	(724.7)
Net amount	**63.9**	**155.4**	**831.0**	**149.2**	**1 199.5**
Reclassification IAS 17					
Gross amount	-	(3.2)	(5.7)	-	(8.9)
Cumulative depreciation and impairment	-	3.2	4.0	-	7.2
Net amount	**-**	**-**	**(1.7)**	**-**	**(1.7)**
As of 1 January 2019					
Gross amount	64.7	219.2	1 479.7	151.7	1 915.3
Cumulative depreciation and impairment	(0.8)	(63.8)	(650.4)	(2.5)	(717.5)
Net amount	**63.9**	**155.4**	**829.3**	**149.2**	**1 197.8**
Changes during the period					
Changes in scope and other	0.5	(0.6)	0.1	-	-
Acquisitions	-	2.7	40.2	203.3	246.2
IAS 29, Hyperinflation	0.5	5.7	8.2	(1.8)	12.6
Disposals	-	(1.6)	(0.8)	-	(2.4)
Translation differences	(0.1)	(3.8)	(2.3)	(2.3)	(8.5)
Depreciation and impairment	(0.1)	(16.7)	(182.1)	-	(198.9)
Transfers	0.1	34.5	180.9	(215.5)	-
Total changes	**0.9**	**20.2**	**44.2**	**(16.3)**	**49.0**
As of 31 December 2019					
Gross amount	65.8	259.3	1 706.0	135.5	2 166.6
Cumulative depreciation and impairment	(0.9)	(83.7)	(832.5)	(2.5)	(919.6)
Net amount	**64.9**	**175.6**	**873.5**	**133.0**	**1 247.0**

B. Rights of use break down as follows:

(in € million)	Buildings	Machinery and equipment	Others	Total
Net carrying amount as of 1 January 2019	**49.1**	**12.6**	**-**	**61.7**
Additions during the period	2.3	8.6	-	10.9
Reductions during the period	(0.7)	(0.7)	-	(1.4)
Depreciation during the period	(11.2)	(7.6)	-	(18.8)
Net carrying amount as of 31 December 2019	**39.4**	**12.9**	**-**	**52.3**

NOTE 12 – IMPAIRMENT OF GOODWILL AND FIXED ASSETS

The carrying amounts of goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually and whenever events or changes in circumstances indicate that they may be impaired. Other fixed assets are tested for impairment whenever events or changes in circumstances indicate that they may be impaired. Such events or situations are related to material and adverse changes affecting the economic environment and the assumptions or objectives identified at the time of acquisition.

Fixed assets are tested at the level of the corresponding CGUs in general in the respective countries.

Goodwill is tested at the level of groups of CGUs corresponding to the various operating segments, i.e. Southern and Western Europe, Northern and Eastern Europe, and Latin America. The breakdown of goodwill generated at the time of the acquisition of Compagnie de Saint-Gobain's packaging activities in 2015 was based on the contribution of each group of CGUs to EBITDA.

When the carrying amount of CGUs or groups of CGUs exceeds their recoverable amount, an impairment loss is recognised and allocated first to the carrying amount of any goodwill allocated to groups of CGUs.

The recoverable amount of the CGUs or groups of CGUs is the greater of the fair value net of exit costs and the value in use, which is measured against anticipated future discounted cash flow projections.

Impairment losses recorded against goodwill cannot be reversed through profit or loss. For property, plant and equipment and other intangible assets, impairments recognised in previous periods may be reversed, taking into account the depreciation adjustment, if there is an indication that the loss of value no longer exists and that the recoverable amount of the asset is greater than its carrying amount.

ESTIMATES AND ASSUMPTIONS MADE BY MANAGEMENT

The assumptions, judgements and estimates on which the impairment tests are based are the main assumptions used to estimate the recoverable amounts in the calculation of the value in use (discount rate, perpetual growth rate, cash flow projections), all of which depend on an assessment of the economic and financial environment.

At 31 December 2019 and 2018, the recoverable amount of the groups of CGUs was determined on the basis of value in use. No goodwill impairment was recognised in financial years 2019 or 2018.

Cash flow projections

Projections of future cash flows correspond to the budget for the coming year, the strategic plan for the following 2 years and an extrapolation for the fourth and fifth years.

The Group uses a number of macroeconomic assumptions to determine its cash flows: exchange rates, GDP growth, inflation, variations in commodity, energy and packaging prices. As regards energy, the Group establishes its assumptions based on expected variations in underlying energy price data (Brent, TTF, NCG). These assumptions are determined using external data and by incorporating the hedging arrangements made.

In addition, the Group takes into account the schedule for maintenance stoppages (furnaces and machines) and for rolling out the Performance Action Plan.

The extrapolation carried out for the two test years (years 4 and 5) is based on growth and margin rates and WCR that are relatively close to those of the last year of the Plan.

Cash flows beyond this five-year period are extrapolated using a constant perpetual growth rate determined on the basis of past performance and market growth forecasts.

The assumptions used to execute the plan are based on economic growth assumptions and consistent with past performance.

Main assumptions used to estimate the value in use of each group of CGUs

	Year ended 31 December	
	2019	2018
Southern and Western Europe		
Discount rate	5.8%	4.6%
Perpetual growth rate	1.5%	1.5%
Northern and Eastern Europe		
Discount rate	5.7%	6.0%
Perpetual growth rate	1.5%	1.5%
Latin America		
Discount rate	9.1%	15.0%
Perpetual growth rate	1.5%	4.5%

The discount rate is the segment’s weighted average cost of capital (WACC) for each group of CGUs.

When carrying out impairment tests on the Latin America group of CGUs, uncertainty about the inflation rate applicable in Argentina for the long term and the proven capacity of Argentine entity Rayen Cura in 2019 to pass hyperinflation onto its selling prices prompted the Group to conduct impairment tests based on the euro. Thus a perpetual growth rate of 1.5% was used.

Sensitivity analysis

The Group has analysed the sensitivity of the impairment tests to the main assumptions used to determine the recoverable amount of each group of CGUs to which the goodwill is allocated, namely the discount rate, the long-term growth rate used to determine the terminal value and the terminal-year cash flows, as they represent a significant portion of the recoverable amount.

For 2019, and for each group of CGUs, no impairment losses for the three groups of CGUs would be recorded in the event of a 1 percentage point increase in the WACC, a 0.5 percentage point reduction in the perpetual growth rate or a 10% decline in terminal-year cash flows.

NOTE 13 – OTHER NON-CURRENT ASSETS

The table below shows the breakdown of other non-current assets:

(in € million)	Notes	Year ended 31 December	
		2019	2018
Equity securities	21	6.5	2.4
Loans, deposits and guarantees	21	26.8	39.7
Pension plan surpluses	19.1.2	4.1	2.8
Other		0.1	1.5
Total other non-current assets		**37.5**	**46.4**

Loans, deposits and guarantees include collateral and guarantee accounts for factoring agreements (**Note 14.4**). The table below shows changes in the net carrying amount of other non-current assets:

(in € million)	Equity securities	Loans, deposits and guarantees	Pension plan surpluses	Other	Total
As of 31 December 2018					
Gross amount	2.9	43.7	2.8	1.5	50.9
Impairment	(0.5)	(4.0)	-	-	(4.5)
Net amount	**2.4**	**39.7**	**2.8**	**1.5**	**46.4**
Changes during the year					
Increase (decrease)	4.1	(10.2)	-	-	(6.1)
Impairment	-	(3.0)	-	-	(3.0)
Translation differences	-	(0.1)	-	-	(0.1)
Transfers and other movements	-	0.3	1.4	(1.4)	0.3
Total changes	**4.1**	**(13.0)**	**1.4**	**(1.4)**	**(8.9)**
As of 31 December 2019					
Gross amount	7.0	33.8	4.1	0.1	45.0
Impairment	(0.5)	(7.0)	-	-	(7.5)
Net amount	**6.5**	**26.8**	**4.1**	**0.1**	**37.5**

NOTE 14 – CHANGE IN NET WORKING CAPITAL

The change in net working capital in 2019 and 2018 is as follows:

(in € million)	Notes	31 December 2018	Impact of cash flows	Foreign exchange and other	31 December 2019
Inventories	14.1	477.9	(19.7)	(3.0)	455.2
Operating receivables	14.2	186.2	(15.8)	(1.4)	169.0
Operating liabilities	14.3	(543.0)	9.1	5.4	(528.5)
Debts to suppliers of fixed assets		(73.2)	(19.3)	0.7	**(91.8)**
Operating working capital		**47.9**	**(45.7)**	**1.7**	**3.9**
Other receivables (non-operating)	14.2	4.7	2.2	3.0	9.9
Other liabilities (non-operating)	14.3	(23.6)	2.1	(18.9)	(40.4)
Current tax assets and liabilities		6.2	4.5	(9.0)	1.7
Total working capital		**35.2**	**(36.9)**	**(23.2)**	**(24.9)**
Change in working capital		**(19.7)**			**(60.1)**

Reconciliation with the condensed consolidated statement of cash flows :

Change in inventory	19.7
Change in trade receivables, trade payables and other receivables/payables	(13.9)
Current tax expense	71.0
Income taxes paid	(59.1)
Increase (decrease) in debt to suppliers of fixed assets	19.3
Total	**36.9**

14.1 INVENTORIES

ACCOUNTING PRINCIPLES

Inventories are carried at the lesser of their acquisition cost or probable net realisable value. The cost of inventories includes purchase costs, production costs and other costs incurred to bring inventories to their current location and condition. It is generally determined using the weighted average cost method and, in some cases, the first-in, first-out method (FIFO). The probable net realisable value is the sale price in the ordinary course of business, less estimated completion and sale costs. Inventory acquired in a business combination is carried at its fair value on the acquisition date.

Inventory can be impaired to reflect the loss in value of inventories. For inventories of finished products, the provision generally relates to inventories whose realisable value is lower than the net carrying amount, inventories not meeting marketing quality standards, and inventories whose slow turnover is liable to result in deterioration.

The change in net inventory was as follows:

(in € million)	31 December					
	2019			2018		
	Gross	Depreciation	Net	Gross	Depreciation	Net
Raw materials	133.4	(16.9)	116.5	141.5	(15.7)	125.8
Inventories of work in progress	3.0	(1.9)	1.1	3.6	(0.8)	2.8
Finished goods	345.6	(7.9)	337.6	356.0	(6.7)	349.3
Total inventories	**482.0**	**(26.7)**	**455.2**	**501.1**	**(23.2)**	**477.9**

14.2 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

ACCOUNTING PRINCIPLES

Accounting: trade receivables are initially recognised at fair value and then measured at amortised cost using the effective interest rate method, net of impairment losses (if any). As trade receivables are generally due within one year, their nominal value is close to their fair value.

On the other hand, receivables with recourse (receivables that are not guaranteed by the factor because they exceed the provisions of either the insurance or factoring arrangement) included in the factoring programme are managed based on the “hold to collect and sell” business model and are measured at fair value in the balance sheet with a corresponding entry in other comprehensive income.

Amortisation: the impairment policy for trade receivables and related accounts is described in **Note 21**.

(in € million)	Notes	Year ended 31 December	
		2019	2018
Trade receivables and related accounts		**114.7**	**119.4**
Advances to suppliers		4.6	2.9
Prepaid social security contributions		0.4	0.5
Other taxes paid in advance and recoverable (other than income taxes)		31.5	38.1
Other operating receivables	A	17.7	25.2
Other non-trade receivables		10.0	4.8
Other current assets		**64.2**	**71.5**
Trade receivables and other current assets		**178.9**	**190.9**

A. Essentially includes energy certificates in Italy (Article 39 and White Certificates).

Impairment of trade receivables breaks down as follows:

(in € million)	31 December	
	2019	2018
Opening balance	**8.2**	**11.1**
Additions	3.0	1.6
Reversals	(3.8)	(3.5)
Translation differences	-	(0.4)
Disposal of Alver	-	(0.6)
Closing balance	**7.4**	**8.2**

The table below shows the ageing of trade receivables at 31 December 2019 and 2018

(in € million)	31 December	
	2019	2018
Accounts receivable not yet due	**106.1**	**103.4**
Accounts receivable past due	**8.6**	**16.0**
Under 30 days	6.3	12.6
Between 30 and 90 days	0.9	1.3
Beyond 90 days	1.4	2.1
Total trade receivables (net amounts)	**114.7**	**119.4**

14.3 TRADE AND OTHER CURRENT LIABILITIES

ACCOUNTING PRINCIPLES

Trade payables and other current liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method. Trade payables and related accounts, other payables and accrued liabilities are generally due within one year, such that their nominal value is close to their fair value.

Trade and other current liabilities break down as follows:

(in € million)	31 December	
	2019	2018
Trade payables	**383.6**	**408.4**
Customer down payments	11.5	11.7
Debts on fixed assets	91.8	73.3
Grants received	6.2	8.0
Accrued personnel expenses	91.6	88.0
Tax liabilities (other than income tax)	16.5	12.9
Derivative liabilities	34.5	15.5
Other	25.0	22.2
Other current liabilities	**277.1**	**231.6**
Total trade payables and other current liabilities	**660.7**	**640.0**

14.4 Factoring

ACCOUNTING PRINCIPLES

Under a non-recourse factoring agreement, when the Group has transferred substantially all the risks and rewards of ownership of the receivables, the receivables are derecognised from the consolidated balance sheet. When trade receivables are sold with limited recourse and substantially all the risks and rewards of these receivables are not transferred, the receivables remain in the consolidated balance sheet. Cash inflows and outflows related to factoring agreements for which the Group does not derecognise receivables are presented on a net basis as cash flows related to financing activities. Contracts through which the Group derecognises receivables result in changes in trade receivables, which are recognised as cash flows from operating activities.

In September 2015, the Group arranged a pan-European factoring programme with Eurofactor for a maximum amount of €400 million (maturing in 2022) and covering the receivables of certain entities within its two European segments. The Group also has local lines in certain countries (primarily Brazil, Argentina and Russia) giving it access to additional financing of up to €50 million.

In accordance with IFRS 9, transferred receivables are derecognised when the factoring agreement transfers the constructive rights to the cash flows and substantially all the associated risks and rewards (transfers of non-recourse receivables) to the assignee.

(in € million)	Year ended 31 December	
	2019	2018
Assignment of receivables without recourse	313.9	320.7
Assignment of receivables with recourse	10.9	16.2
Total receivables assigned	**324.8**	**336.9**

In accordance with the factoring agreements, the risk of dilution is covered by establishing reserves and escrow accounts in an amount corresponding to approximately 4% of the receivables transferred in 2019 and approximately 5% of the receivables transferred in 2018. The amounts recorded in "Other non-current assets" at 31 December 2019 and 31 December 2018 were €12.0 million and €19.3 million respectively.

In addition, the Group has entered into various reverse factoring programmes offered by some of its clients and amounting to €32.6 million in 2019 and €21.9 million in 2018.

NOTE 15 – CASH AND CASH EQUIVALENTS

ACCOUNTING PRINCIPLES

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits held with other banks. Cash equivalents are short-term, highly liquid investments that are readily convertible into a known amount of cash and subject to an insignificant risk of change in value.

Statement of cash flows

The statement of cash flows is prepared using the indirect method on the basis of consolidated net income/loss and is broken down into three categories:

- **Cash flows from operating activities:** including taxes, acquisition costs relating to takeovers and payments received as grants;
- **Cash flows from investing activities:** in particular in the event of a takeover (excluding acquisition costs), a loss of control (including transaction costs), acquisitions and disposals of non-consolidated investments, associate companies and joint ventures, as well as acquisitions and disposals of fixed assets (including fees and deferred payments) excluding leases;
- **Cash flow from financing activities:** including issuance and repayment of loans, issuance of equity instruments, shareholder equity transactions (including transaction costs and any deferred payments), interest paid (cash flows related to financial expense), treasury share transactions and dividends paid.

Balances of cash and cash equivalents are as follows:

(in € million)	Year ended 31 December	
	2019	2018
Cash	155.9	214.0
Cash equivalents	63.3	48.1
Total cash ans cash equivalents	**219.2**	**262.1**

At 31 December 2019, cash and cash equivalents consist mainly of cash in bank accounts and short-term bank deposits in the amount of €219.2 million (€262.1 million at 31 December 2018).

The Group has access to a portion of the cash held by certain subsidiaries through the payment of dividends or through inter-company loans. However, local constraints may delay or restrict this access, including monetary restrictions in some foreign jurisdictions.

The Verallia Group’s policy is to centralise the liquidity of its subsidiaries at Verallia Packaging where possible.

Bank guarantees are disclosed in **Note 23.2.1**.

NOTE 16 – EQUITY

16.1 SHARE CAPITAL

The change in the number of shares and share capital was as follows:

(in €)	Number of shares	Face value	Share capital
As of 31 December 2018	**229 189 201**	**0.60**	**137 513 521**
Increase in the nominal value (20 September 2019)	-	1.69	249 816 229
Capital increase / Issue of new shares (20 September 2019)	954 931	1.69	1 613 833
Increase in the nominal value / Reverse split of shares (20 September 2019)	(115 072 066)	3.38	-
Capital reduction / Cross-border merger (7 October 2019)	(115 072 065)	3.38	(388 943 580)
Capital increase / Issue of new shares (7 October 2019)	118 393 942	3.38	400 171 524
As of 31 December 2019	**118 393 942**	**3.38**	**400 171 524**

At 31 December 2019, the share capital amounts to €400,171,523.96 and consisted of 118,393,942 ordinary shares with a nominal value of €3.38 each.

The following operations went ahead on 20 September 2019:

- a capital increase in cash of a nominal amount of €249,816,229.09 via an increase in the nominal value of the shares, by way of a set-off against a certain, liquid and due receivable, resulting in the Company's share capital increasing to €387,329,749.69;
- immediately followed by a capital increase in cash of a nominal amount of €1,613,833.39 via the issue of 954,931 new shares, by way of a set-off against a certain, liquid and due receivable, resulting in the Company's share capital increasing to €388,943,583.08;

These two capital increases enabled the Company to incorporate into its capital the outstanding balance (principal and interest) of the loan previously granted to it by its sole partner, Luxembourg company Horizon Intermediate Holdings S.C.A.

- immediately followed by a reverse split of all the Company's outstanding shares so that the Company's share capital was now divided into 115,072,066 ordinary shares with a nominal value of €3.38 each.

The following operations went ahead on 7 October 2019:

- The Company's merger-acquisition of Horizon Intermediate Holdings S.C.A. via:
  - an increase in the Company's capital, following completion of the reverse cross-border merger with Horizon Intermediate Holdings S.C.A, of a total amount of €389,208,659.58 via the issue of 115,150,491 new ordinary shares with a nominal value of €3.38 each;
  - immediately followed by the cancellation of all 115,072,065 ordinary shares in the Company transferred to it under the reverse cross-border merger (which thus then counted as treasury shares), resulting in a capital reduction of a total of €388,943,579.70;

- The Verallia FCPE (employee investment fund) transferred all the ordinary and preference shares it held in the capital of Verallia Packaging to the Company in exchange for new ordinary shares in the Company via an increase in the Company's capital of a total of €87,573,151.95 (nominal and contribution premium) involving the issue of 3,243,450 new ordinary shares in Verallia.

On 20 December 2019, the Company signed an AMAFI liquidity agreement with Rothschild Martin Maurel for market-making purposes with respect to its own shares on the regulated market of Euronext Paris. This liquidity agreement took effect on 6 January 2020 for an initial term of 12 months, renewable by tacit agreement for successive 12-month periods. Implementation of the agreement involved €2,500,000 being credited to the liquidity account.

16.2 TRANSLATION RESERVE

In financial year 2018, the €31.3 million decrease in the translation reserve was primarily due to the Brazilian real which varied from 4.0 to 4.4 (EUR/BRL).

In financial year 2019, the €6.7 million increase in the translation reserve was primarily due to the appreciation of the Russian rouble and Ukrainian hryvnia.

16.3 EARNINGS PER SHARE

16.3.1 Basic earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding:

	Year ended 31 December	
	2019	2018
Group's share of net profit (loss) (in € million)	115.6	41.1
Number of shares	115 502 924	229 189 201
Basic earnings per share (in €)	**1.00**	**0.18**

16.3.2 Diluted earnings per share

The calculation of diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares:

	Year ended 31 December	
	2019	2018
Group's share of net profit (loss) (in € million)	115.6	41.1
Diluted number of shares	115 511 989	229 189 201
Diluted earnings per share (in €)	**1.00**	**0.18**

The Group factored in the dilutive impact resulting from the new share ownership plan introduced in July 2019.

NOTE 17 – BORROWINGS AND FINANCIAL LIABILITIES

17.1 NET FINANCIAL DEBT

Net financial debt includes all financial liabilities and derivatives on current and non-current financial liabilities, minus the amount of cash and cash equivalents.

The table below shows the change in net financial debt:

(in € million)	Notes	Year ended 31 December	
		2019	2018
Non-current financial liabilities andderivatives	17.2	1 583.9	2 139.2
Current financial liabilities and derivatives	17.2	225.9	105.4
Gross debt		**1 809.8**	**2 244.6**
Cash and cash equivalents	15	(219.2)	(262.1)
Net debt		**1 590.6**	**1 982.5**

17.2 CHANGE IN GROSS FINANCIAL DEBT

17.2.1 Pre-IPO financing

Term Loan B

The Group carried out the following:

- On 29 October 2015, the arrangement of a Term Loan B of €1,337 million maturing in October 2022
- On 22 June 2016, an increase in the loan's nominal amount to €1,375 million
- On 3 November 2017, a partial early repayment of €100 million from its available cash
- On 28 March 2019, a partial early repayment of €150 million from its available cash
- On 7 October 2019, full repayment following the arrangement of a new Term Loan A described in Note 17.2.2.

Term Loan C

The Group carried out the following:

- On 1 August 2018, the arrangement of a Term Loan C of €550 million maturing in August 2025
- On 7 October 2019, full repayment following the arrangement of a new Term Loan A described in Note 17.2.2.

Shareholder loan

In October 2015, the Group arranged a loan with Horizon Intermediate Holdings S.C.A. (the "shareholder loan") of an initial amount of €347 million and maturing in October 2025.

The Group has made various partial early repayments of this shareholder loan:

- a total amount of €141 million over the course of 2016
- a total amount of €21.5 million on 25 March 2019
- a total amount of €16 million on 25 July 2019

On 20 September 2019, the outstanding balance of this shareholder loan (principal and interest) was incorporated into the Company's capital in an amount of €251.4 million.

17.2.2 Post-IPO financing

Term Loan A

On 17 July 2019 the Group signed a Senior Facilities Agreement, and on 7 October 2019 it arranged a Term Loan A of €1,500 million refundable via a bullet payment and maturing in October 2024. The applicable margin was initially set at Euribor + 175 base points (floor rate of 0%) with an upward or downward adjustment mechanism (ratchet).

Negotiable European Commercial Paper

In June 2018, the Group set up a short-term financing programme consisting of Negotiable European Commercial Paper (Neu CP) with a ceiling of €250 million.

- The outstanding amount issued at 31 December 2018 was €80 million bearing an average interest rate of 0.28%.
- On 25 July 2019, the ceiling on this programme was raised to €400 million.

The outstanding amount issued at 31 December 2019 is €188 million bearing an average interest rate of 0.25%.

Revolving credit facilities: changes and characteristics

The Group carried out the following:

- On 29 October 2015, the arrangement of a revolving credit facility of €200 million maturing in October 2021
- On 22 June 2016, an increase in the facility's nominal amount to €250 million
- On 1 August 2018, an increase in its nominal amount to €325 million
- On 7 October 2019, the replacement of this facility with a new revolving credit facility under the new Senior Facilities Agreement

This new revolving credit facility of a nominal amount of €500 million expires in October 2024. The facility includes a swingline of €50 million available to the Group for same-day drawing. The applicable margin was initially set at Euribor + 135 base points (floor rate of 0%) with an upward or downward adjustment mechanism (ratchet).

The following fees will also be due on the revolving credit facility: (i) a commitment fee due for the available credit commitment made by each lender under the revolving credit facility at a rate of 30% of the applicable margin and (ii) utilisation fees of 20 base points and 40 base points above the margin for any amounts drawn above thresholds of respectively 33.$^{1/3}$% and 66.$^{2/3}$% of the revolving credit facility.

Gross financial debt at 31 December 2019

At 31 December 2019, the revolving credit facility had not been drawn.

(in € million)	Notes	Notional or maximum amount	Currency	Contractual interest rate	Effective interest rate	Final maturity	Type of facility	Deferred expenses and bond premiums	Carrying amount as of 31 December 2019		Total as of 31 December 2019
									Non-current	Current	
Revolving credit facility		500.0	EUR	Euribor + 1,35%	1.35%	07/10/2024	Revolving	3.0		-	
Term Loan A (floor 0%)	B	1 500.0	EUR	Euribor + 1,75%	1.90%	07/10/2024	Maturity	9.0	1 488.0	2.7	1 490.7
Lease liabilities	17.5								36.3	17.0	53.3
Other borrowings									50.4	6.5	56.9
Total long-term debt									*1 574.7*	*26.2*	*1 600.9*
Financial derivatives	20.1.2								9.3	0.3	9.6
Total long-term debt and derivative financial instruments									**1 584.0**	**26.5**	**1 610.5**
Negotiable commercial paper (NEU CP)		400.0	EUR							188.2	188.2
Other borrowings										11.2	11.2
Total short-term debt									-	**199.4**	**199.4**
Total borrowings									**1 584.0**	**225.9**	**1 809.9**

Gross financial debt at 31 December 2018

(in € million)	Notes	Notional or maximum amount	Currency	Contractual interest rate	Effective interest rate	Final maturity	Type of facility	Deferred expenses and bond premiums	Carrying amount as of 31 December 2018		Total as of 31 December 2018
									Non-current	Current	
Revolving credit facility		325.0	EUR	Euribor + 2,50%	2.50%	29/10/2021	Revolving	3.2			
Term Loan B (floor 0%)		1 275.0	EUR	Euribor + 2,75%	3.17%	29/10/2022	Maturity	28.2	1 253.7	3.0	1 256.7
Term Loan C (floor 0%)		550.0	EUR	Euribor + 2,75%	2.98%	01/08/2025	Maturity	6.2	543.8	1.2	545.0
Shareholder Loan		269.8	EUR	8.12%	8.12%	28/10/2025	Accruable		273.7		273.7
Finance lease liabilities									1.2	0.7	1.9
Other borrowings									60.1	7.4	67.5
Total long-term debt									*2 132.5*	*12.3*	*2 144.8*
Financial derivatives									6.7	-	6.7
Total long-term debt and derivative financial instruments									**2 139.2**	**12.3**	**2 151.5**
Negotiable commercial paper (NEU CP)		250.0	EUR							80.0	80.0
Other borrowings										13.1	13.1
Total short-term debt									-	**93.1**	**93.1**
Total borrowings									**2 139.2**	**105.4**	**2 244.6**

17.3 THE GROUP'S DEBT STRUCTURE

Interest rates applicable to the Group's entire portfolio of financial liabilities, after incorporating derivative instruments, break down as follows:

(in € million)	Year ended 31 December	
	2019	2018
Total fixed-rate borrowings	1 512.1	1 894.4
Total variable-rate borrowings	297.8	350.2
Total borrowings	**1 809.9**	**2 244.6**

17.4 Debt repayment schedule

The debt maturity profile of the Group's financial liabilities and derivatives is as follows:

(in € million)	Year ended 31 December	
	2019	2018
Less than one year	225.9	105.4
Between one and five years	1 559.8	1 306.6
More than five years	24.2	832.6
Total borrowings	**1 809.9**	**2 244.6**

At 31 December 2019, borrowings of under a year consist primarily of €188 million of Neu CP (negotiable commercial paper) versus €80 million in 2018.

17.5 Lease liabilities

At 31 December 2019, lease liabilities amounted to €53.3 million.

(in € million)	Leases current Terms Debts	Leases non current Terms Debts	Lease debts
January 1st, 2019	**18.3**	**44.1**	**62.4**
Reductions during the period	(7.6)	(13.9)	(21.5)
Additions during the period	4.3	6.6	10.9
Capitalized Interests	2.0	-	2.0
Change in Group Structure	-	-	-
Other	-	(0.5)	(0.5)
December 31, 2019	**17.0**	**36.3**	**53.3**

The maturity profile for lease liabilities is as follows:

(in € million)	Year ended 31 December 2019
Less than one year	17.0
In one to five years	29.3
In more than five years	7.0
Total lease liabilities	**53.3**

17.6 COVENANTS

2019 senior debt

The senior facilities agreement includes a certain number of affirmative and negative commitments, for instance not to:

- grant security interests;
- enable Group companies that are neither guarantors nor borrowers under the senior facilities agreement to incur debt for a cumulative amount exceeding 20% of the Group's consolidated net debt;
- sell assets;
- conduct certain mergers, demergers, partial asset transfers and similar transactions; or
- make changes to the type of business conducted by the Group,

with each of these cases subject to stipulated minimum thresholds and exceptions typical in this type of financing arrangement.

The Senior Facilities Agreement also includes affirmative commitments, for instance to maintain insurance policies, comply with applicable laws, keep the borrowings at least at the same rank as the unsecured debts of the borrowers and guarantors under the Senior Facilities Agreement, require the Group's material subsidiaries to stand as guarantors under the Senior Facilities Agreement and ensure that the consolidated EBITDA of all Group members standing as guarantors under the Senior Facilities Agreement together accounts for at least 80% of the Group's consolidated EBITDA (as specified in the Senior Facilities Agreement). Last of all, the Senior Facilities Agreement requires observance of a financial ratio threshold limiting the amount of debt that the Group's members are able to contract. The Group is required to keep its leverage ratio (total net debt/pro forma consolidated EBITDA) below or equal to 5x until the Senior Facilities Agreement expires; this ratio is tested at the end of each half-year period and for the first time for the period ending 31 December 2020.

Total net debt is defined in the senior facilities agreement as being the Group's consolidated financial debt excluding intra-group debt and obligations relating to interest rate and foreign exchange risk hedging instruments, after deduction of cash and cash equivalents.

No payment default had arisen or persisted under the Senior Facilities Agreement as at 31 December 2019.

17.7 CHANGE IN DEBT

The change in financial debt in 2019 is as follows:

(in € million)	31 December 2018	Cash inflows	Cash outflows	Discount effects and other*	Interest expense	Change in the scope of consolidation	Translation differences	31 December 2019
Non-current financial liabilities and derivatives	**2 139.2**	**1 538.2**	**(1 882.1)**	**(227.0)**	**16.1**	**-**	**(0.4)**	**1 584.0**
Current financial liabilities and derivatives (excluding interest)	100.3	106.7	(27.0)	40.6	2.1	-	(0.3)	222.4
Interest on long-term debt	5.1	-	(52.3)	-	50.6	-	0.1	3.5
Current financial liabilities and derivatives	**105.4**	**106.7**	**(79.3)**	**40.6**	**52.7**	**-**	**(0.2)**	**225.9**
Total financial liabilities	**2 244.6**	**1 644.9**	**(1 961.4)**	**(186.4)**	**68.8**	**-**	**(0.6)**	**1 809.9**

* Mainly consists of lease liabilities in application of IFRS 16

Reconciliation with the consolidated statement of cash flows

Increase (reduction) in bank overdrafts and other short-term borrowings	106.4	
Increase in long-term debt	1 538.5	
Reduction in long-term debt		(1 891.0)
Financial interest paid		(70.4)
Total	**1 644.9**	**(1 961.4)**

NOTE 18 – PROVISIONS AND OTHER NON-CURRENT FINANCIAL LIABILITIES

The change in provisions in financial year 2019 breaks down as follows:

(in € million)	Provisions for claims, litigation and other	Provisions for environmental risks	Provisions for restructuring and employee benefit expenses	Provisions for risks relating to associates	Other risks	Total provisions	Liabilities relating to investments	Total provisions and other liabilities
As of 31 December 2018								
Current portion	2.5	0.6	10.0	-	28.0	41.1	-	41.1
Non-current portion	18.8	9.6	0.9	3.1	4.6	37.0	15.8	52.8
Total provisions	**21.3**	**10.2**	**10.9**	**3.1**	**32.6**	**78.1**	**15.8**	**93.9**
Changes during the period								
Additions	2.7	3.0	3.3	-	17.5	26.5	-	26.5
Reversals (unused)	(3.1)	-	(1.6)	-	(0.6)	(5.3)	-	(5.3)
Reversals (used)	(1.9)	(0.3)	(3.1)	-	(5.1)	(10.4)	-	(10.4)
Other (reclassifications and translation differences)	(10.8)	-	(0.5)	0.8	0.7	(9.8)	0.1	(9.7)
Total changes	**(13.1)**	**2.7**	**(1.9)**	**0.8**	**12.5**	**1.0**	**0.1**	**1.1**
As of 31 December 2019								
Current portion	2.2	2.6	8.1	-	39.0	51.9	-	51.9
Non-current portion	5.9	10.4	0.9	3.9	6.1	27.2	15.9	43.1
Total provisions	**8.1**	**13.0**	**9.0**	**3.9**	**45.1**	**79.1**	**15.9**	**95.0**

On application of IFRIC 23, provisions for tax risks in an amount of €9.5 million were reclassified to current tax liabilities.

18.1 PROVISIONS AND CONTINGENT LIABILITIES

ACCOUNTING PRINCIPLES

A provision is made when (i) the Group has a legal or current implicit obligation towards a third-party resulting from a past event, (ii) an outflow of resources will probably be necessary for the Group to extinguish the obligation, and (iii) the amount of the obligation can be reliably estimated.

Provisions primarily concern obligations associated with litigation, restructuring plans and other risks identified with respect to the Group's operations. Provisions with settlement dates that can be reliably estimated are discounted.

When a current obligation is unlikely to exist, the Group recognises a contingent liability, unless there is little likelihood of an outflow of resources embodying an economic benefit.

Contingent liabilities assumed during a business combination are recognised at their fair value on the acquisition date.

Under applicable regulations on carbon dioxide (CO_2) emission allowances, and in light of the Group's allowances deficit, the Group accordingly recorded provisions in financial years 2018 and 2019.

When the Group is in deficit (CO_2 allowances to be surrendered for CO_2 emitted during the year in excess of the stock of CO2 emission allowances allocated free of charge and featuring in the securities accounts at the closing date), it recognises a provision to cover the expected allowances deficit so as to be able to surrender the allowances in April of the following year. Measurement of the provision takes into account the price of forward purchases made for the following year and the spot price on 31 December of the current year for the balance not covered by forward purchases.

CO_2 emission allowances allocated free of charge or purchased are recognised in the Group's inventory of raw materials.

ESTIMATES AND ASSUMPTIONS MADE BY MANAGEMENT

Estimates primarily concern valuations of liabilities and contingent liabilities, especially provisions for litigation and other Group risks.

18.1.1 Provisions for claims, litigation and other

These provisions mainly concern provisions for claims, litigation and other commercial risks, primarily in France and Italy.

Litigation between Verallia Italia and Nelson Servizi

In December 2014, Verallia Italia, as a supplier, and Nelson Servizi, as a distributor, renewed their previously agreed distribution contract and established mutual undertakings to sell and buy standard and customised bottles for the Cuban market for the years 2015, 2016 and 2017.

During the last few months of 2015, the Group decided to cease all commercial activity for the Cuban market starting from the second half of 2016. Verallia Italia therefore offered Nelson Servizi an out-of-court settlement to terminate their ongoing relationship. In response, Nelson Servizi suspended all payments to Verallia Italia.

In February 2016, Verallia Italia informed Nelson Servizi that said distribution contract would be cancelled if Nelson Servizi did not settle its debts towards it. That same month, Verallia Italia received a summons from Nelson Servizi ordering it (i) to fulfil its obligations under the distribution contract that was renewed in December 2014, (ii) to compensate Nelson Servizi for damages resulting from the breach of the distribution contract and from Verallia Italia's behaviour, and (iii) to compensate Nelson Servizi for damages resulting from Nelson Servizi's economic dependence on Verallia Italia. Nelson Servizi thus requested that Verallia Italia be ordered to pay damages amounting to €11 million.

At the closing date, the litigation launched by Nelson Servizi remains under investigation.

A provision was recognised accordingly in the amount of €4.3 million at 31 December 2019 and 2018.

18.1.2 Provisions for environmental risks

Provisions for environmental risks cover the costs of environmental protection measures, asbestos-related costs and the costs of waste disposal relating to the reconstruction of furnaces.

Asbestos-related litigation

Charges of gross negligence (inexcusable fault)

In France, since the late 1990s, several former and current employees of the Group or their assignees have filed lawsuits against the Group's French subsidiary, Verallia France, for gross negligence; their aim has been to obtain damages, in addition to the compensation they received from the French social security authorities, along with an increase in said compensation for occupational illnesses resulting from their alleged exposure to asbestos-containing materials. In recent years, the French courts have responded favourably to some of their demands. At 31 December 2019, the amount provisioned in respect of these claims stand at €1.1 million.

Classification of the Cognac facility as an asbestos-contaminated site

On February 4, 2019, the Bordeaux Administrative Court of Appeal reiterated the ruling handed down by the Administrative Court of Poitiers not to place the Cognac facility on the list for the period 1964-1975. The time-limit to appeal against this decision has now expired and the case is closed.

The Cognac facility has therefore not been placed on the list of manufacturing, spraying and insulation facilities involving asbestos.

Claims for compensation for anxiety

At 31 December 2019, 87 lawsuits had been filed by employees or former employees of the Group claiming compensation for anxiety caused by their alleged exposure to asbestos-containing materials at the Group's French facilities.

At the closing date, none of the plaintiffs had claimed to have fallen ill as a result of exposure to asbestos-containing materials.

A provision has been recognised for this risk in the amount of €1.5 million.

18.1.3 Provisions for restructuring and personnel expenses

Provisions for restructuring and personnel expenses amount to €9 million at 31 December 2019 and €10.9 million at 31 December 2018.

They mainly concern Brazil (€6.3 million versus €8.1 million at 31 December 2018) following the closure of the Sao Paolo production plant.

18.1.4 Provisions for other risks

Provisions for other risks mainly concern the provision relating to the Group's deficit with respect to its CO2 allowances for the period covering Phase III (2013-2020) of the "Quotas Directive", amended by Directive 29/2009/EC.

With respect to provisions for CO2 allowance deficits, emission projections were calculated for Phase III of the European plan ending in 2020 and were based on the detailed estimates made periodically by the Group's industrial management. Management measures the Group's capacity utilisation according to energy prices (fuel and gas), the markets and any upgrades made to its production facilities.

In light of the Group's allowances deficit, a provision was recognised in financial years 2019 and 2018 in the amounts of €37.7 million and €27.6 million.

Moreover, in order to secure the prices at which it will have to acquire allowances, and in preparation for the end of Phase III, the Group has made forward purchases of carbon dioxide allowances on the market for a total amount at 31 December 2019 of €34.9 million, corresponding to its expected deficit. The settlement of forward purchases and delivery of allowances will result in a cash outflow for the Group (it will accordingly record a reversal of the aforementioned provision corresponding to the amount of said outflows), mainly in 2021.

Measurement of the provision takes into account the price of forward purchases made by the Group and the spot price at the closing date for the balance not covered by forward purchases.

Under Phase IV (2021-2030), as defined by the Quotas Directive, the amount of allowances allocated to the Group free of charge will not be known until the start of 2021 for the 2021-2025 period and the start of 2026 for the 2026-2030 period. Despite the uncertainty surrounding the number of allowances that will be allocated to it free of charge under Phase IV, the Group already expects the number allocated to it free of charge to be slightly lower than under Phase III and, in any case, it believes it will probably not be allocated enough to meet its allowance return obligations in respect of its carbon dioxide emissions, which means it will have to continue purchasing large amounts of allowances on the market.

In preparation for Phase IV, the group has already made forward purchases of carbon dioxide allowances on the market for a total amount at 31 December 2019 of €24.6 million.

18.1.5 Risks relating to associates

Context

In 2013, Verallia Brasil, a Company subsidiary, set up a joint venture governed by Brazilian law (Industria Vidreira de Nordeste – "IVN") with a local partner, Ipiaram Empreendimentos e Participações Ltda (Ipiaram). Verallia Brasil held a majority stake in this joint venture, the purpose of which was to build and operate a glass manufacturing facility in the Brazilian state of Sergipe. The plant came onstream in 2015.

Verallia Brasil's shareholding was equity-accounted and then sold in October 2018.

Bank guarantees / Shareholder loans

In addition, at 31 December 2016, the shareholder loans traditionally granted to IVN by Verallia Brasil were fully impaired in the amount of 55.6 million Brazilian reals (corresponding to €15 million at the average exchange rate in 2016). In 2018, this impairment loss was fully recovered following the disposal of the shareholding to an amount of 55.6 million Brazilian reals (corresponding to €13 million at the average exchange rate of 2018) (**Note 6.2**).

Disposal

In October 2018, the Group and Ipiaram completed the disposal of their shareholdings in IVN. A €14 million gain was recognised in the financial year 2018 for this disposal.

Arbitration

In January 2017, Ipiaram launched arbitration proceedings with the International Chamber of Commerce (ICC) against Verallia Brasil regarding the interpretation of certain provisions in the partnership agreements signed by the two parties; Ipiaram felt entitled to exercise the undertakings to purchase granted by Verallia Brasil under these partnership agreements.
At the closing date, these arbitration proceedings were still under way. At 31 December 2019, Ipiaram's claim is estimated at 104 million Brazilian reals in total damages (i.e. approximately €23 million at the closing exchange rate on 31 December 2019); the Group, meanwhile, considers that there are no grounds for the claim. No provisions have been recognised for this risk.

18.2 OTHER NON-CURRENT FINANCIAL LIABILITIES

ACCOUNTING PRINCIPLES

The other non-current financial liabilities primarily consist of put options granted to minority shareholders in subsidiaries and liabilities relating to the acquisition of securities in the Group's companies, including additional considerations for acquisitions made. Liabilities relating to the put options correspond to the present value of their estimated exercise price, with a corresponding decrease in interests not conferring control and in equity attributable to owners of the parent company. Any subsequent fair value adjustment of the liability is recognised through an adjustment to equity.

Verallia Deutschland AG

Other non-current financial liabilities include a liability towards Verallia Deutschland AG's minority shareholders.

In December 2016, Verallia Deutschland AG, as the controlled entity, and Horizon Holdings Germany GmbH, as the controlling entity, signed a Domination and Profit & Loss Transfer Agreement ("DPLTA") approved by the local authorities.

At 31 December 2019, the Group held 96.74% of the capital and voting rights in Verallia Deutschland AG, its German-listed subsidiary (96.73% at 31 December 2018).

After signing this agreement, and in accordance with applicable German law, Horizon Holdings Germany GmbH agreed to purchase all the Verallia Deutschland AG shares it did not already own for €433.02 per share. To date, this offer still applies, but some of Verallia Deutschland AG's minority shareholders dispute the valuation on which the price per share offered was based. A liability relating to the obligation to buy out these minority shareholders was therefore recognised for a total present value of €12.9 million at 31 December 2019 (€12.3 million at 31 December 2018). This amount is based on the assumption that 100% of minority shareholders will tender their shares to the offer made by Horizon Holdings Germany GmbH to purchase their shares for €433.02 per share as proposed in 2016.

Moreover, the Domination and Profit & Loss Transfer Agreement provides for annual flat-rate compensation (in the form of dividends per share paid each year) payable to Verallia Deutschland AG's minority shareholders. A liability relating to the obligation to pay this compensation for 5 years was therefore recognised for a total present value of €2.1 million at 31 December 2019 (€2.7 million at 31 December 2018). The minority shareholders also dispute the amount of annual flat-rate compensation provided for in said agreement.

On September 24, 2018, the Stuttgart district court rejected the requests made by the minority shareholders. The minority shareholders appealed, and the case was sent to the Stuttgart regional high court where it is still pending.

Therefore, total liabilities relating to the DPLTA amounted to €15 million at 31 December 2019 versus €15 million at 31 December 2018.

NOTE 19 – PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

Provisions for pensions and other employee benefits break down as follows:

(in € million)	Notes	31 December	
		2019	2018
Annuities payable to plan beneficiaries		80.8	77.3
Flat-rate compensation		42.1	31.5
Post-employment medical benefits		5.9	5.4
Provisions for pensions and other liabilities	**19.1**	**128.8**	**114.2**
Other long-term benefits	19.2	4.2	3.2
Provisions for pensions and other employee benefits		**133.0**	**117.4**

The Group's workforce breaks down as follows:

	Year ended 31 December	
	2019	2018
Managers	903	869
Employees	2 207	2 252
Manual workers	6 595	6 629
Total	**9 705**	**9 750**

The workforce presented corresponds to the average number of people employed by the Group over the year.

19.1 PENSION LIABILITIES AND OTHER POST-EMPLOYMENT BENEFIT LIABILITIES

ACCOUNTING PRINCIPLES

Defined benefit plans

Defined benefit pension plans refer to plans where the Group is committed officially or through an implicit obligation to an amount or level of benefits and therefore bears the associated medium- or long-term risk.

After retiring, the Group's former employees are entitled to pension benefits in accordance with applicable laws and regulations in the respective countries in which the Group operates. Supplemental pension liabilities also apply in some of the Group's companies, in France and also in other countries. The group's liabilities with respect to pensions and retirement benefits are established at the end of the reporting period with the assistance of independent actuaries, on an actuarial basis, using the projected unit credit method which incorporates projected final salaries on retirement and economic conditions in each country. These liabilities can be funded by pension funds or plan assets, and a provision is recognised in the consolidated balance sheet for the portion not funded by assets.

The Group contributes to defined benefit plans which determine the level of retirement benefits an employee will receive on their retirement. These plans mainly concern Germany, Spain, Italy and France.

In France, employees receive retirement benefits depending on their years of service and their last salary on the date of their retirement. This flat-rate amount is determined according to the applicable collective agreement.

Retired former employees in Spain and Germany receive benefits other than retirement benefits, for instance for healthcare. The Group's obligations under these plans are calculated on an actuarial basis and provisions are recognised accordingly in the consolidated balance sheet.

Remeasurements of the net defined benefit liability (asset), comprising actuarial gains and losses, the return on plan assets (excluding amounts factored into the calculation of net interest on net liabilities) and the change in the effect of the asset ceiling (if any, excluding interest), are recognised immediately in "Other comprehensive income".

Provisions are also made, on an actuarial basis, for other long-term employee benefits such as long-service awards and bonuses in various countries. Actuarial gains and losses relating to these other long-term benefits are recognised immediately in the statement of income.

Interest expenses relating to these liabilities and returns on the corresponding plan assets are valued by the Group using the discount rate applied to estimate the liability at the start of the period, and are recognised in financial income as "net interest expense relating to pension plans and other benefits".

Defined contribution plans

Defined contribution pension plans are those for which the Group's only obligation is to pay a contribution, but the Group has no obligation as regards the level of benefits paid.

Contributions into defined contribution plans are expensed as incurred.

ESTIMATES AND ASSUMPTIONS USED BY MANAGEMENT

The present value of defined benefit pension liabilities depends on a certain number of factors that are determined on an actuarial basis using assumptions about population growth and financial/economic factors. The assumptions used to calculate defined benefit pension liabilities and net pension costs include the discount rate and the rate of future salary growth. To establish these estimates and assumptions, Management takes advice from external consultants and actuaries. Any material change in these assumptions could result in a material change in the employee benefit expenses recognised in the consolidated statement of income and in the remeasurements recognised in "other comprehensive income" offset against equity.

19.1.1 Main economic and financial assumptions used to measure defined benefit pension liabilities and plan assets

Pension liabilities and other post-employment benefit liabilities are calculated on an actuarial basis using the projected unit credit method applied to estimated final salaries.

Rate assumptions

Assumptions about mortality, staff turnover and salary growth factor in economic conditions and population trends in each individual country.

Discount rates are established by region depending on the bond yields of high-quality companies at the end of the financial year. The discount rates used for the Group's main plans are as follows:

(in %)	Year ended 31 December	
	2019	2018
Discount rate	0.7% to 0.9%	1.6%
Salary increases including long-term inflation	1.8% to 2.5%	1.8% to 2.5%
Long-term inflation rate	1.5%	1.8%

Sensitivity analysis

The sensitivity analyses carried out imply the following outcomes for defined benefit pension liabilities:

(in € million)	Year ended 31 December	
	2019	2018
Impact of 0.5% increase in discount rate	(11.6)	(8.9)
Impact of 0.5% decrease in discount rate	13.1	9.9
Impact of 0.5% increase in inflation rate	10.7	6.7

19.1.2 Change in pension liabilities and other post-employment benefit liabilities

Net carrying value of the provision

The table below shows defined benefit pension liabilities relating to the Group's pension liabilities and other post-employment benefit plans along with the corresponding plan assets:

(in € million)	Notes	Year ended 31 December	
		2019	2018
Provisions for pensions and other post-employment benefit liabilities	19	128.8	114.2
Pension plan surpluses		(4.1)	(2.8)
Net pension liabilities and other post-employment benefit liabilities		**124.7**	**111.4**

Liability analysis

The total amount of the Group's pension liabilities and other post-employment benefit liabilities breaks down as follows:

(in € million)	31 December 2019					31 December 2018				
	Spain	Germany	Other Western European countries	Other	Total	Spain	Germany	Other Western European countries	Other	Total
Average duration (in years)					**14.1**					**12.6**
Defined benefit liabilities - funded plans	42.1		0.1		42.2	44.1		0.2		44.3
Defined benefit liabilities - unfunded plans	3.6	82.7	42.0	0.6	128.9	4.7	77.5	31.4	0.4	114.0
Fair value of plan assets	(45.4)		(1.0)		(46.4)	(46.0)		(0.9)		(46.9)
Deficit (Surplus)	**0.3**	**82.7**	**41.1**	**0.6**	**124.7**	**2.8**	**77.5**	**30.7**	**0.4**	**111.4**
Asset ceiling					**-**					**-**
Net pension liabilities and other post-employment benefit liabilities					**124.7**					**111.4**

Plan assets

Plan assets primarily consist of insurance policies. They are invested in low-risk assets.

Change in pension liabilities and other post-employment benefit liabilities

Changes in pension liabilities and other post-employment benefit liabilities break down as follows:

(in € million)	Notes	Pension liabilities and other post-employment benefit liabilities	Fair value of plan assets	Net pension liabilities and other post-employment benefit liabilities
As of 31 December 2017		**166.8**	**(49.7)**	**117.1**
Fluctuations during the year				
Current service cost		2.4	-	2.4
Net interest expense	**7**	2.5	(0.7)	1.8
Reductions/settlements		(0.2)	-	(0.2)
Past service cost		-	-	-
Contributions to the pension plan		-	0.2	0.2
Translation differences		-	-	-
Employee benefit expenses recognised in the income statement		*4.7*	*(0.5)*	*4.2*
Payment of benefits		(9.9)	3.8	(6.1)
Business combination		(1.1)	-	(1.1)
Remeasurement of net liabilities (net assets)		(2.2)	(0.5)	(2.7)
Other		-	-	-
Total movements during the year		**(8.5)**	**2.8**	**(5.7)**
As of 31 December 2018		**158.3**	**(46.9)**	**111.4**
Fluctuations during the year				
Current service cost		2.3	-	2.3
Net interest expense	**7**	2.5	(0.7)	1.8
Reductions/settlements		(0.4)	-	(0.4)
Past service cost*		7.1	-	7.1
Contributions to the pension plan		-	0.4	0.4
Translation differences		0.1	-	0.1
Employee benefit expenses recognised in the income statement		*11.5*	*(0.4)*	*11.2*
Payment of benefits		(9.1)	3.2	(5.9)
Business combination		-	-	-
Remeasurement of net liabilities (net assets)		10.3	(2.3)	8.0
Other		-	-	-
Total movements during the year		**12.8**	**0.5**	**13.3**
As of 31 December 2019		**171.1**	**(46.4)**	**124.7**

** Service costs expensed in financial year 2019 concern changes to France's national collective agreement which took effect in October 2019.*

19.2 OTHER LONG-TERM BENEFITS

Defined benefit pension liabilities are generally calculated on an actuarial basis according to the same method as for pension liabilities.

At 31 December 2019, provisions for other long-term employee benefits primarily include long-service awards payable by the subsidiaries in France amounting to €2.3 million (€1.6 million at 31 December 2018) and bonuses amounting to €1.5 million in Germany (€1.4 million at 31 December 2018).

19.3 MANAGEMENT SHARE OWNERSHIP PLAN

19.3.1 New share ownership plan

The Group's compensation policy is aimed at retaining and motivating talented employees, and at involving managerial staff in its performances, mainly through a long-term incentive plan in the form of bonus share awards subject to performance criteria linked to the Group's long-term strategy.

For this purpose, when the Group listed on the regulated market of Euronext Paris, it set up a performance share allocation plan spanning a period of three years from 2019 to 2021 (the "2019/2021 Plan"), corresponding to at most 1% of the Company's share capital and allocated in three tranches.

The final allocation of shares each year under the 2019/2021 Plan is decided subject to (a) the continued employment of the employee or executive concerned and (b) performance criteria that are (i) 70% dependent on targets set for adjusted EBITDA and net debt before dividend payouts and share buybacks, measured over the previous two years combined, and (ii) 30% dependent on the achievement of a share performance target, starting from the Company's initial public offering, relative to the share performances of companies listed in the SBF 120 index on Euronext Paris.

An initial allocation of shares corresponding to a maximum of 0.33% of the Company's share capital was made in July 2019 subject to performance criteria being met.

At 31 December 2019, the number of ordinary shares under this plan is 282,308.

19.3.2 Management share ownership plan

When Compagnie Saint-Gobain's Packaging division was acquired in 2015, the Company's shareholders set up a share ownership plan for Verallia's Management ("Management Share Ownership Plan 2015") in order to align Management's interests with those of the shareholders and to enable the Company's Management to share in Verallia's long-term growth.

Certain key executives were given the opportunity to invest in both ordinary shares and preference shares in Horizon Intermediate Holdings S.C.A ("Horizon Intermediate"), a holding company upstream of the Company, on the date of the acquisition, 29 October 2015. Thereafter, in 2017, another share ownership plan ("Management Share Ownership Plan 2017") was set up to offer a similar opportunity to other key managers.

Investments in ordinary shares and preference shares were carried out *pari passu* and settled in equity instruments, so they were not expensed in the income statement, in accordance with IFRS 2*, Share-based payment*.

On 7 October 2019, the Company carried out the merger-acquisition of Horizon Intermediate Holdings S.C.A., the Company's parent company with 100% of its capital. Members of Management along with other key managers having subscribed to the Management Share Ownership Plan 2015 thereby became shareholders in the Company on that date.

19.3.3 Bonus preference shares

Bonus shares were granted to members of the Management and other key managers, leading to the recognition of costs for share-based payments, based on a number of bonus preference shares I and a number of bonus preference shares II obtained in Horizon Intermediate Holdings S.C.A under the Management Share Ownership Plan 2015 and Management Share Ownership Plan 2017, respectively.

The features of these share ownership plans are summarised below:

- **Vesting period and service conditions:** essentially, the vesting of bonus preference shares is subject to 3 cumulative conditions: continued service within the Group, the occurrence of a redemption event (initial public offering or change of control), and the achievement of a specified internal rate of return. The vesting period is therefore the service period running from the grant date to the estimated redemption event date;
- **Financial rights:** once the bonus preference shares have been vested, the managers have the right: (i) for each year, to a preferred return of 0.01% per year of the face value of the bonus preference share, and (ii) during the redemption year, to a return calculated according to a percentage of the redemption gain;
- **Settlement:** share-based payments and associated financial rights are settled directly by Horizon Intermediate Holdings S.C.A.

The Company has no obligation to settle the share-based payment with its employees in cash, so bonus preference shares are recognised as plans settled in equity instruments, spread out over the vesting period of the rights acquired by the beneficiaries (the service period), with a corresponding increase in equity.

Subsequent to the Company's merger-acquisition of Horizon Intermediate Holdings S.C.A, the Company's parent company, members of the Management and other key managers eligible for bonus preference share programmes became shareholders in Verallia SA.

19.3.4 Accounting impacts

Fair values applied to the new share ownership plan and bonus preference share programmes were measured taking the features of these plans into account. Expenses incurred in relation to these plans and associated costs recognised in the consolidated statement of income were €11.5 million for the financial year ended 31 December 2019 and €5.7 million for the financial year ended 31 December 2018.

19.4 GROUP SAVINGS PLANS

In financial year 2016, Verallia Packaging SAS, a fully consolidated subsidiary of the Verallia Group, set up an employee investment fund, the Verallia FCPE (Fonds Commun de Placement), invested in shares in Verallia Packaging SAS. This fund was an option to invest offered to employees of the Group's entities participating in the Group's savings plan, either through a Group Savings Plan set up between Verallia Packaging SAS and the

Verallia Group's French entities or an International Group Savings Plan set up between Verallia Packaging SAS and the Verallia Group's non-French companies. In 2019 and 2018, the non-French companies that participated in the International Group Savings Plan were Spain, Germany, Portugal, Poland and Brazil.

On 28 June 2019, a €7.2 million capital increase reserved for the Group's savings plans was carried out via the FCPE fund.

On 7 October 2019, the Verallia FCPE transferred to the Company all the ordinary and preference shares it held in the capital of the Verallia Packaging subsidiary, i.e. 3.52% of its capital (versus 2.89% at 31 December 2018), in exchange for new ordinary shares in the Company corresponding to 2.74% of its capital.

NOTE 20 – FINANCIAL RISK MANAGEMENT

The Group's financial risk management strategy aims to minimise the impact of volatility in interest rates, energy prices and exchange rates on its costs and cash flows, while maintaining the financial flexibility the Group needs to successfully roll out its commercial strategies.

20.1 LIQUIDITY RISK

In a crisis scenario, the Group might not be able to obtain the financing or refinancing needed to cover its investment plans from the credit or equity markets, or it might not be able to do so on acceptable terms.

The Group's overall exposure to liquidity risk is managed by the Group's treasury and finance department.

The table below shows the contractual deadlines applicable to the Group's financial liabilities, including its interest payments.

(in € million)	Notes	31 December 2019					
		Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Current and non-current portion of long-term debt (including interest)	17	1 600.9	1 749.9	57.8	50.1	1 617.8	24.2
Other liabilities, including derivative financial instruments	17	9.6	9.6			9.6	
Short-term debt	17	199.4	199.4	199.4			
Total borrowings	**17**	**1 809.9**	**1 958.9**	**257.2**	**50.1**	**1 627.4**	**24.2**
Trade payables and related accounts	14.3	383.6	383.6	383.6			
Other payables and accrued liabilities, including commodity derivative financial instruments	14.3	277.0	277.0	277.0			
Total financial liabilities		**2 470.5**	**2 619.5**	**917.8**	**50.1**	**1 627.4**	**24.2**

At 31 December 2019, the Group has a revolving credit facility with an undrawn amount of €500 million.

(in € million)	Notes	31 December 2018 Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Current and non-current portion of long-term debt (including interest)	17	2 144.8	2 541.7	74.9	54.6	1 423.2	989.0
Other liabilities, including derivative financial instruments	17	6.7	6.7			6.7	
Short-term debt	17	93.1	93.1	93.1			
Total borrowings	**17**	**2 244.6**	**2 641.5**	**168.0**	**54.6**	**1 429.9**	**989.0**
Trade payables and related accounts	14.3	408.4	408.4	408.4			
Other payables and accrued liabilities, including commodity derivative financial instruments	14.3	231.6	231.6	231.6			
Total financial liabilities		**2 884.5**	**3 281.5**	**808.0**	**54.6**	**1 429.9**	**989.0**

At 31 December 2018, the Group had a revolving credit facility with a committed and undrawn amount of €325 million expiring in 2021.

20.2 Market risks

20.2.1 Interest rate risk

The Group's overall exposure to debt-related interest rate risk is managed by its Treasury and Finance Department. The subsidiaries using derivative instruments generally do so with Verallia Packaging as the counterparty. The Group's policy is to secure the cost of its medium-term debt against the risk of an increase in interest rates, while optimising its cost.

In August 2018, the Group hedged a large portion of its exposure to a rise in the Euribor rate through interest rate swaps of a nominal value of €1,500 million and maturing in August 2022.

In October 2019, after repaying some of its debt, the Group unwound €250 million of interest rate swaps.

Interest rates	31 December 2019 Notional amount in currency millions	31 December 2019 Fair value	31 December 2018 Notional amount in currency millions	31 December 2018 Fair value
Interest rate swaps	1 250.0	(9.1)	1 500.0	(6.6)
Cross-currency swaps (XCS BRL/USD)	-	-	10/3,06	0.4
Total interest rate derivative financial instruments		**(9.1)**		**(6.2)**

Interest rate derivative instruments: derivative instruments hedging interest rate risk are referred to as cash flow hedging instruments.

The hedging strategy is set up in such a way as to align the main characteristics of the underlying with those of the derivatives, so the inefficiency to be recorded is non-significant for the periods presented herein.

Thus, a 50 bp variation in interest rates (1m Euribor for 2019 and for 2018), projected forward to the closing date, would have the following impact on profit:

(in € million)	2019	2018
Impact of 50 base point (bp) increase	(0.4)	(0.4)
Impact of 50 base point (bp) decrease	-	-

20.2.2 Currency risk

Currency risk includes the following:

Transaction risk: occurring during the normal course of business. The Group mostly operates locally, and most of its receivables and payables are denominated in the subsidiary's operating currency.

Financial risk: occurring during the normal course of business for certain financial liabilities denominated in a currency other than the operating currency.

Exchange rate - Currency	31 December 2019	
	Notional amount in currency millions	Fair value
Currency derivatives - EUR/BRL	6.6/31.3	(0.2)
Currency derivatives - EUR/GBP	7.9/6.9	(0.2)
Currency derivatives - USD /BRL	6.2/25.3	(0.1)
Currency derivatives - EUR/RUB	18.0/1310	(0.7)
Other		0.1
Total currency derivative financial instruments		**(1.1)**

Exchange rate - Currency	31 December 2018	
	Notional amount in currency millions	Fair value
Currency derivatives - EUR/RUB	20.6/1557	1.1
Currency derivatives - EUR/USD	7.3/8.2	(0.1)
Currency derivatives - USD /ARS	5.2/248.7	(0.7)
Other		0.1
Total currency derivative financial instruments		**0.4**

Currency derivative instruments: derivative instruments hedging transaction and financial currency risks are referred to as fair value hedging instruments.

Translation risk: occurring as a result of the consolidation in euros of the financial statements of subsidiaries that have a different operating currency. Any fluctuation in the exchange rates of these currencies against the euro has an impact on the Group's equity. The Group's main exposures are to the Argentine peso, the Brazilian real and the Russian rouble.

2019	Groups's equity	
(in € million)	Euro appreciation +10%	Euro depreciation -10%
Brazilian real	(23.0)	19.0
Argentine peso	(5.0)	4.0
Russian rouble	(7.0)	5.0

2018	Groups's equity	
(in € million)	Euro appreciation +10%	Euro depreciation -10%
Brazilian real	(22.0)	18.0
Argentine peso	(8.0)	7.0
Russian rouble	(6.0)	5.0

20.2.3 Commodity risk

The Group is exposed to variations in the prices of the commodities and energy it uses in its operational activities. The Group may sometimes limit its exposure to fluctuations in energy prices by using swaps to hedge some of its energy purchases. Energy hedges (excluding purchases at fixed prices negotiated directly with suppliers by the procurement department) are arranged, as far as possible, by the Group's treasury and finance department in accordance with the instructions received from the Group's procurement department and in keeping with the directives established by the Board of Directors.

Commodities	31 December 2019	
	Notional amount in currency millions	Fair value
Commodity derivatives fuel swaps (€)	16.5	2.8
Commodity derivatives gas swaps (€)	124.4	(31.9)
Commodity derivatives electricity swaps (€)	11.1	(0.9)
Total commodity derivative financial instruments		**(30.0)**

Commodities	31 December 2018	
	Notional amount in currency millions	Fair value
Commodity derivatives fuel swaps (€)	22.6	(10.5)
Commodity derivatives gas swaps (€)	158.5	(4.1)
Total commodity derivative financial instruments		**(14.6)**

Energy derivative instruments: derivative instruments hedging the risk of fluctuations in energy prices are referred to as cash flow hedging instruments. The hedging strategy is set up in such a way as to align the main characteristics of the underlying with those of the derivatives, so the inefficiency to be recorded is non-significant for the periods presented herein.

20.2.4 Financial counterparty risk

The Group may be exposed to the risk of a default by one of the banking counterparties that manages its cash or any of its other financial instruments, as such a default could result in a financial loss for the Group. Application of IFRS 13 *Fair value measurement*, requiring the incorporation of counterparty risk when measuring derivative instruments, had no material impact on the Group's financial statements at 31 December 2019 and 2018.

NOTE 21 – FINANCIAL INSTRUMENTS

ACCOUNTING PRINCIPLES

Initial recognition and measurement

Trade receivables are initially recognised when they are created. All other financial assets and liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, in the case of an item not measured at fair value through profit or loss ("FVTPL"), the transaction costs that are directly attributable to its acquisition or issue. A trade receivable with no significant financing component is initially measured at its transaction price.

Classification and subsequent measurement

Financial assets

At initial recognition, a financial asset is classified as having been measured either at amortised cost, at fair value through other comprehensive income ("FVOCI") with a distinction made between debt instruments and equity instruments, or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets, in which case all financial assets affected are reclassified on the first day of the first financial year following the change in business model.

A financial asset is measured at amortised cost if it meets the following two conditions and is not designated as at FVTPL:

- it is held as part of a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payment of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets the following two conditions and is not designated as at FVTPL:

- it is held as part of a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payment of principal and interest on the principal amount outstanding.

At initial recognition of an equity instrument that is not held for trading, the Group has the irrevocable option to present subsequent adjustments to the fair value of this instrument in other comprehensive income. This choice is made for each instrument.

All financial assets not classified as being measured at amortised cost or at FVOCI using the method described above are measured at FVTPL. This includes all derivative financial assets (see below). At initial recognition, the Group has the irrevocable option to designate a financial asset that would otherwise meet the conditions to be measured at amortised cost or at FVOCI as being at FVTPL, if this designation makes it possible to eliminate or significantly reduce an accounting mismatch that would otherwise have arisen.

Financial assets – assessing whether contractual cash flows are solely payment of principal and interest

For the purposes of this assessment, the term "principal" is defined as being the fair value of the financial asset at initial recognition. "Interest" is defined as being the consideration of the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time, and other basic lending risks and costs (for example, liquidity risk and administrative expenses), as well as the profit margin.

The Group takes into consideration the instrument's contractual terms when assessing whether contractual cash flows are solely payment of principal and interest.

Financial assets – subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are then measured at their fair value. Net gains and losses, including any interest income or dividends, are recognised through profit or loss. However, see **Note 20** for derivative instruments designated as hedging instruments.
Financial assets at amortised cost	These assets are then measured at amortised cost using the effective interest method. Impairment losses are deducted from the amortised cost. Interest income, currency gains and losses, and impairment losses are recognised through profit or loss. Any gains or losses from derecognition are recognised through profit or loss.
Debt instruments at FVOCI	These assets are then measured at their fair value. Interest income calculated using the effective interest method, currency gains and losses, and impairment losses are recognised through profit or loss. Other net gains and losses are recognised through other comprehensive income. At derecognition, cumulative gains and losses in other comprehensive income are reclassified to profit or loss.
Equity investments at FVOCI	These assets are then measured at their fair value. Dividends are recognised as income in profit or loss, unless the dividend clearly corresponds to the recovery of some of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

Financial liabilities – classification, subsequent measurement and gains and losses

In accordance with IFRS 9, financial liabilities are classified as being measured at amortised cost or at FVTPL. A financial liability is classified as being at FVTPL if it is considered to be held for trading, whether it is a derivative or was designated as such at initial recognition. Financial liabilities at FVTPL are measured at fair value and the resulting net gains and losses, including any interest expense, are recognised through profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and currency gains and losses are recognised through profit or loss. Any gains or losses resulting from derecognition are also recognised through profit or loss.

See **Note 20** for financial liabilities designated as hedging instruments.

Derecognition –

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control over the financial asset.

The Group carries out transactions through which it transfers assets recognised in its balance sheet but retains all or substantially all the risks and rewards of ownership of the transferred assets. In such cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or they expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at its fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

When a financial liability measured at amortised cost is modified without being derecognised, a gain or loss is recognised through profit or loss. The calculated gain or loss corresponds to the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Derivative financial instruments and hedge accounting under IFRS 9

The Group holds derivative financial instruments to hedge currency risk, interest rate risk, commodity risk and energy risk. Embedded derivatives are separated from the host contract and considered separately if the host contract is not a financial asset and if certain criteria are met.

Derivatives are first measured at their fair value. Subsequent to initial recognition, derivative instruments are measured at their fair value and changes therein are generally recognised in profit or loss.

The Group designates certain derivative instruments as being hedging instruments to hedge the variability of cash flows relating to highly probable forecast transactions resulting from movements in exchange rates, interest rates, commodity prices or energy prices. At inception of a designated hedging relationship, the Group documents the risk management objective and the strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether variations in cash flows from the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative recognised in other comprehensive income is limited to the cumulative change in the fair value of the hedged item, determined using the present value, as from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a non-financial item, such as inventory, the amount that has been accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount that has been accumulated in the hedging reserve is reclassified to profit or loss in the same period(s) as when the hedged forecast future cash flows affect profit or loss.

If the hedge no longer meets hedge qualifying criteria or if the hedging instrument is sold, expires, is terminated or exercised, hedge accounting is then discontinued prospectively. If hedge accounting of cash flow hedges ceases to apply, the amount that has been accumulated in the hedging reserve remains recognised in equity until, in the case of the hedging of a transaction giving rise to the recognition of a non-financial item, it is included in the cost of the non-financial item on its initial recognition or, in the case of other cash flow hedges, until it is reclassified in profit or loss in the same period(s) as when the hedged forecast cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

Impairment of receivables

The Group recognises impairment losses for Expected Credit Losses (ECL) for:

- financial assets measured at amortised cost; and
- contract assets.

Impairments for losses on trade receivables and contract assets are measured at an amount equal to full lifetime ECL.

To determine whether the credit risk of a financial asset has increased significantly since initial recognition, and to estimate ECL, the Group considers reasonable and supportable information that is relevant and available and does not involve undue cost or effort. This consists of quantitative and qualitative information and analyses based on the Group's past experience and on an informed credit assessment, including prospective information.

Impairments for losses on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off if the Group has no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to recovery procedures in accordance with the Group's credit policy.

ESTIMATES AND ASSUMPTIONS USED BY MANAGEMENT

As indicated above, the Company uses estimates to determine impairments for trade receivables.

Classification and fair value measurement

Financial assets and liabilities are classified as follows:

(in € million)	Notes	31 December 2019 – Accounting categories						31 December 2019 – Fair value measurement based on:			
		Amortised cost	Fair value through other comprehensive income – equity instruments	Fair value through other comprehensive income – debt instruments	Mandatorily at fair value through profit or loss	Fair value – hedging instruments	Carrying amount	Level 1: prices quoted on active markets	Level 2: significant observable inputs	Level 3: significant nonobservable inputs	Total financial instruments at fair value
Equity investments - nongroup	13		6.5				6.5			6.5	6.5
Loans, deposits and receipts	13	26.8					26.8		26.8		26.8
Trade receivables and related accounts (excluding current tax receivables)	14.2	165.0		10.9			175.9		175.9		175.9
Derivative instruments hedging financial risk	20.2				0.1		0.1		0.1		0.1
Derivative instruments hedging operating risk (*)	14.2 & 20.2					3.1	3.1		3.1		3.1
Cash and cash equivalents	15	155.9			63.3		219.2	171.6	47.6		219.2
Total financial assets		**347.7**	**6.5**	**10.9**	**63.4**	**3.1**	**431.6**	**171.6**	**253.5**	**6.5**	**431.6**
Term Loan A and revolving credit facility (unused)	*17*	(1 490.7)					(1 490.7)		(1 490.7)		(1 490.7)
Financial liabilities on finance leases	*17*	(53.3)					(53.3)		(53.3)		(53.3)
Other long-term liabilities	*17*	(48.7)		(8.2)			(56.9)		(56.9)		(56.9)
Total long-term debt		(1 592.7)	-	(8.2)	-	-	(1 600.9)	-	(1 600.9)	-	(1 600.9)
Derivative instruments hedging financial risk (**)	20.2					(9.6)	(9.6)		(9.6)		(9.6)
Total long-term debt and instruments		**(1 592.7)**	**-**	**(8.2)**	**-**	**(9.6)**	**(1 610.5)**	**-**	**(1 610.5)**	**-**	**(1 610.5)**
Negotiable commercial paper (NEU CP)	*17*	(188.2)					(188.2)		(188.2)		(188.2)
Other short-term liabilities	*17*	(8.5)		(2.7)			(11.2)		(11.2)		(11.2)
Total short-term debt		**(196.7)**	**-**	**(2.7)**	**-**	**-**	**(199.4)**	**-**	**(199.4)**	**-**	**(199.4)**
Derivative instruments hedging operating risk (*)	14.3 & 20.2					(34.4)	(34.4)		(34.4)		(34.4)
Trade payables and related accounts	14.3	(383.6)					(383.6)		(383.6)		(383.6)
Other payables and accrued liabilities	14.3	(242.7)					(242.7)		(242.7)		(242.7)
Total financial liabilities		**(2 415.7)**	**-**	**(10.9)**	**-**	**(44.0)**	**(2 470.5)**	**-**	**(2 470.5)**	**-**	**(2 470.5)**
Total		**(2 068.0)**	**6.5**	**-**	**63.4**	**(40.9)**	**(2 038.9)**	**171.6**	**(2 217.0)**	**6.5**	**(2 038.9)**

(*) All commodity swaps are designated as cash flow hedges.

(**) Interest rate swaps (payer fixed/receiver variable) taken out by the Group are designated as cash flow hedges.

(in € million)	Notes	Amortised cost	Fair value through other comprehensive income – equity instruments	Fair value through other comprehensive income – debt instruments	Mandatorily at fair value through profit or loss	Fair value – hedging instruments	Carrying amount	Level 1: prices quoted on active markets	Level 2: significant observable inputs	Level 3: significant nonobservable inputs	Total financial instruments at fair value
		31 December 2018									
		Accounting categories						**Fair value measurement based on:**			
Equity investments - nongroup	13		2.4				2.4			2.4	2.4
Loans, deposits and receipts	13	40.2					40.2		40.2		40.2
Trade receivables and related accounts (excluding current tax receivables)	14.2	174.4		16.3			190.7		190.7		190.7
Derivative instruments hedging financial risk	20.2				1.5		1.5		1.5		1.5
Derivative instruments hedging operating risk (*)	14.2 et 20.2					0.2	0.2		0.2		0.2
Cash and cash equivalents	15	214.0			48.1		262.1	225.2	36.9		262.1
Total financial assets		**428.7**	**2.4**	**16.3**	**49.6**	**0.2**	**497.2**	**225.2**	**269.6**	**2.4**	**497.2**
Term Loan B and revolving credit facility (unused)	*17*	(1 256.7)					(1 256.7)		(1 243.9)		(1 243.9)
Term Loan C	*17*	(545.0)					(545.0)		(539.3)		(539.3)
Shareholder Loan	*17*	(273.7)					(273.7)		(273.7)		(273.7)
Financial liabilities on finance leases	*17*	(1.9)					(1.9)		(1.9)		(1.9)
Other long-term liabilities	*17*	(58.8)		(8.7)			(67.5)		(67.5)		(67.5)
Total long-term debt		(2 136.1)	-	(8.7)	-	-	(2 144.8)	-	(2 126.4)	-	(2 126.4)
Derivative instruments hedging financial risk (**)	20.2					(6.7)	(6.7)		(6.7)		(6.7)
Total long-term debt and instruments		**(2 136.1)**	**-**	**(8.7)**	**-**	**(6.7)**	**(2 151.5)**	**-**	**(2 133.1)**	**-**	**(2 133.1)**
Negotiable commercial paper (NEU CP)	*17*	(80.0)					(80.0)		(80.0)		(80.0)
Other short-term liabilities	*17*	(5.5)		(7.6)			(13.1)		(13.1)		(13.1)
Total short-term debt		**(85.5)**	**-**	**(7.6)**	**-**	**-**	**(93.1)**	**-**	**(93.1)**	**-**	**(93.1)**
Derivative instruments hedging operating risk (*)	14.3 & 20.2					(15.5)	(15.5)		(15.5)		(15.5)
Trade payables and related accounts	14.3	(408.4)					(408.4)		(408.4)		(408.4)
Other payables and accrued liabilities	14.3	(216.1)					(216.1)		(216.1)		(216.1)
Total financial liabilities		**(2 846.1)**	**-**	**(16.3)**	**-**	**(22.2)**	**(2 884.6)**	**-**	**(2 866.2)**	**-**	**(2 866.2)**
Total		**(2 417.4)**	**2.4**	**-**	**49.6**	**(22.0)**	**(2 387.4)**	**225.2**	**(2 596.6)**	**2.4**	**(2 369.0)**

(*) All commodity swaps are designated as cash flow hedges.

(**) Interest rate swaps (payer fixed/receiver variable) taken out by the Group are designated as cash flow hedges.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants.

Fair value is based on market inputs and commonly used valuation models, and may be confirmed in the case of complex instruments by reference to values quoted by independent financial institutions.

NOTE 22 – RELATED PARTIES

ACCOUNTING PRINCIPLES

Under IAS 24 *Related party disclosures*, a related party is a person or an entity that is related to the reporting entity.

It can be any of the following:

- a person or company that has control over the Group;
- a Group associate;
- a joint venture;
- a member of the company's key management personnel (or a member of that person's family).

A related party transaction is a transfer of resources, services or obligations between the Group and this related party.

22.1 TRANSACTIONS WITH ASSOCIATES

The scope of associated companies is defined in **Note 3.3.**

The amounts shown in the Group's accounts relating to associates are as follows:

	(in € million)	Year ended 31 December	
		2019	2018
Statement of financial position	Non-current assets	4.5	2.8
	Current assets	1.3	5.2
	Non-current liabilities	-	-
	Current liabilities	1.6	1.8
Income statement	Revenue	5.2	5.7
	Cost of sales	11.9	10.7
	Financial income	-	0.3

Transactions were carried out in normal market conditions, that is in conditions similar to those that would usually apply between independent parties.

22.2 Transactions with shareholders

22.2.1 Loan agreement between Verallia Packaging and Bpifrance Financement

On 11 December 2018, Verallia Packaging, a Company subsidiary, and Bpifrance Financement, an affiliate of Bpifrance Participations, a direct shareholder in the Company, signed an agreement for a €10 million instalment loan aimed at financing and refinancing the cash requirements of Verallia Packaging and its subsidiaries. The loan carries annual interest at a rate of 0.70%. The loan is repayable on 31 December 2021.

At 31 December 2019, the loan amount including interest totalled €6.7 million.

22.2.2 Intra-group loan with Horizon Intermediate Holdings:

On 28 October 2015, the Company signed an intra-group loan agreement with its sole partner, Horizon Intermediate Holdings S.C.A, for a maximum initial amount of €347 million with an accruable annual interest rate of 8.12% and a maturity of 10 years.

(in € million)	Year ended 31 December	
	2019	2018
Loans outstanding at start of year	**273.6**	**253.1**
Repayments	(37.4)	-
Accrued interest	15.2	20.5
Receivable incorporation _ Capital increase (20 September 2019)	(251.4)	-
Loans outstanding at end of year	**-**	**273.6**

The Company carried out the following:

- on 25 March 2019, a partial early repayment of this term loan in the total amount of €21.5 million (of which €12.5 million of principal and €9 million of accrued interest) and
- on 25 July 2019, a partial early repayment of this term loan in the total amount of €15.9 million (of which €7 million of principal and €8.9 million of accrued interest).

On 20 September 2019, Horizon Intermediate Holdings S.C.A subscribed to two capital increases carried out by the Company by way of a set-off against the receivable held by Horizon Intermediate Holdings S.C.A against the Company for the outstanding balance of principal (€248.3 million) and accrued interest not yet due (€3.1 million) under the aforementioned term loan, i.e. a total of €251.4 million:

- a capital increase in cash of a nominal amount of €249.8 million via an increase in the nominal value of the Company's shares by way of a set-off, resulting in an increase in the Company's share capital to €387.3 million (**Note 16.1**); then
- a capital increase in cash of a nominal amount of €1.6 million via the issue of 954,931 new shares in the Company by way of a set-off, resulting in an increase in the Company's share capital to €388.9 million (**Note 16.1**).

22.2.3 Services contract

The Group has no services contracts with its shareholders.

22.3 TRANSACTIONS WITH MANAGEMENT PERSONNEL

The Group's key management personnel are its Management team, which includes the following:

- The Chief Executive Officer
- The Chief Financial Officer
- Segment Managers
- The General Secretary
- The Chief Industrial Officer
- The Chief Legal Officer

The compensation of key management personnel shown in the statement of income for the period (including employer contributions and excluding social security contributions on bonus share awards) is as follows:

(in € million)	Year ended 31 December	
	2019	2018
Short-term employee benefits	7.5	6.6
Post-employment benefits	0.6	1.1
Other long-term benefits	-	0.3
Termination benefits	-	0.9
Share-based payment	3.5	3.0
Total	**11.6**	**11.8**

The compensation of members of the Board of Directors (attendance fees) corresponds to the amounts recorded in the statement of income over the period.
Attendance fees allocated to non-executive officers in respect of their mandates at Verallia SA amount to €0.3 million versus €0.2 million in 2018.

NOTE 23 – CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET COMMITMENTS

23.1 COMMITMENTS OF OPERATING ACTIVITIES

(in € million)	Notes	31 December 2019	31 December 2018
OPERATING COMMITMENTS GIVEN			
Operating lease liabilities*		-	46.7
Non-cancellable purchase commitments	**23.1.1**	557.5	453.1
Other operating commitments given	**23.1.2**	3.4	9.0
Total operating commitments given		**560.8**	**508.8**
OPERATING COMMITMENTS RECEIVED			
Commitments received	**23.1.3**	**11.6**	**14.2**

** Application of IFRS 16*

23.1.1 Non-cancellable purchase commitments

Non-cancellable purchase commitments include firm orders for property, plant and equipment as well as purchase commitments for commodities and services.

(In € million)		2019	Payments due		
			Less than 1 year	1 to 5 years	More than 5 years
Non-cancellable purchase commitments					
- Non-current assets	**A**	**96.9**	92.3	4.6	-
- Commodities and energy	**B**	**385.5**	252.9	130.0	2.6
- Services		**68.8**	48.5	20.3	-
- Other		**6.3**	4.7	1.6	-
Total		**557.5**	**398.4**	**156.5**	**2.6**

(In € million)		2018	Payments due		
			Less than 1 year	1 to 5 years	More than 5 years
Non-cancellable purchase commitments					
- Non-current assets	**A**	**31.7**	31.7	-	-
- Commodities and energy	**B**	**365.6**	172.6	184.8	8.2
- Services		**53.8**	21.5	32.3	-
- Other		**2.0**	0.7	1.3	-
Total		**453.1**	**226.5**	**218.4**	**8.2**

A. Corresponds mainly to purchase commitments made for the building and rebuilding of furnaces.

B. Includes CO_2 emission allowances futures qualifying for the “own use” exemption.

23.1.2 Other operating commitments given

Other operating commitments given consist primarily of guarantees relating to the environment.

23.1.3 Operating commitments received

Operating commitments received amount to €11.6 million at 31 December 2019 and to €14.2 million at 31 December 2018. They consist primarily of guaranteed receivables.

23.2 FINANCING COMMITMENTS

(in € million)	Notes	31 December	
		2019	2018
FINANCING COMMITMENTS GIVEN			
Assets held under finance leases*		-	1.4
Guaranteed current assets	**23.2.1**	2 047.2	2 178.3
Other financing commitments given	**23.2.2**	16.2	34.0
Total financing commitments given		**2 063.3**	**2 213.7**
FINANCING COMMITMENTS RECEIVED			
Commitments received	**23.2.3**	**805.5**	**568.2**

** Application of IFRS 16*

The Group's main borrowing commitments are indicated in **Note 17.**

23.2.1 Guaranteed current assets

Guaranteed current assets consist primarily of guarantees relating to the term loans and revolving credit facility:

On 7 October 2019, as part of the process of listing Verallia SA shares for trading on the regulated market of Euronext Paris, the Group refinanced the facilities made available to it under the facilities agreement signed on 7 August 2015 (as amended subsequently) (the "2015 Facilities Agreement"), primarily by drawing on the term loan made available to Verallia Packaging under the English-language facilities agreement of a maximum total principal amount of €2,000,000,000 signed on 17 July 2019 and governed by French law. As part of the 2019 Facilities Agreement, Verallia SA stands as joint and several guarantor ("Guarantor") for the payment and repayment obligations of Verallia Packaging and the Group's other companies that may also adhere to the 2019 Facilities Agreement as guarantors (i.e. Verallia France, Verallia Italia, Verallia Brasil, Verallia Spain, Verallia Portugal and Verallia Deutschland), for a maximum principal amount of €2,000,000,000 (plus interest, fees and commissions) and within the legal and contractual limits set out in Article 22.13 (Limitation of Liabilities of French Guarantors) of the 2019 Facilities Agreement.

23.2.2 Other financing commitments given

Other financing commitments given consist primarily of letters of comfort for local loan guarantees.

23.2.3 Financing commitments received

Financing commitments received consist primarily of credit facilities.

NOTE 24 – AUDIT FEES

(in € million)	*PricewaterhouseCoopers*				*BMA*				*Other*				*Total*			
	Amount (before tax)		*%*		*Amount (before tax)*		*%*		*Amount (before tax)*		*%*		*Amount (before tax)*		*%*	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Audit, certification and review of parent company and consolidated financial statements	**1.2**	**1.2**	**49%**	**92%**	**0.3**	**-**	**71%**	**-**	**0.2**	**0.5**	**56%**	**97%**	**1.6**	**1.7**	**52%**	**94%**
Verallia SA	*0.3*	-	*14%*	-	*0.2*	-	*42%*	-	-	-	-	-	*0.5*	-	18%	-
Fully-consolidated subsidiaries	*0.8*	*1.2*	*35%*	*92%*	*0.1*	-	*0%*	-	*0.2*	*0.5*	*56%*	*97%*	*1.1*	*1.7*	35%	***94%***
Services other than certification of financial statements	**1.2**	**0.1**	**51%**	**8%**	**0.1**	**-**	**29%**	**-**	**0.1**	**0.0**	**44%**	**3%**	**1.4**	**0.1**	**48%**	**6%**
Verallia SA	*0.7*	-	*31%*	-	*0.1*	-	*29%*	-	-	-	-	-	*0.8*	-	25%	**-**
Fully-consolidated subsidiaries	*0.5*	*0.1*	*20%*	*8%*	-	-	*0%*	-	*0.1*	*0*	*44%*	*3%*	*0.6*	*0.1*	*25%*	***6%***
TOTAL	**2.4**	**1.3**	**100%**	**100%**	**0.4**	**-**	**100%**	**-**	**0.3**	**0.5**	**100%**	**100%**	**3.0**	**1.8**	**100%**	**100%**

Services other than the certification of financial statements provided by the Statutory Auditors of Verallia SA, the consolidating entity, and of its subsidiaries correspond primarily to due diligence conducted for the Company's initial public offering.

NOTE 25 – EVENTS AFTER THE CLOSING DATE

No significant events occurred after the close on 31 December 2019.