Combined Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Euro)	Notes	At 31 December		
		2019	2018	2017
Non-current assets				
Property, plant and equipment	8.1	31,799	30,669	31,865
Right-of-use assets	8.2	17,326	18,577	-
Intangible assets	8.3	25,217	25,713	26,800
Non-current financial assets measured at fair value through profit or loss	8.4	42	32	32
Financial assets measured at amortised cost	8.5	866	858	975
Prepaid tax assets	8.6	5,034	4,844	6,386
Total non-current assets		**80,284**	**80,693**	**66,058**
Current assets				
Inventories	8.7	25,880	25,251	25,735
Trade receivables	8.8	49,274	53,869	54,430
Current tax assets	8.9	716	775	1,179
Other receivables and current assets	8.10	4,701	14,440	22,328
Current financial assets measured at fair value through profit or loss	8.11	4	4	280
Cash and cash equivalents	8.12	100,884	61,786	72,060
Total current assets		**181,459**	**156,125**	**176,012**
TOTAL ASSETS		**261,743**	**236,818**	**242,070**
Shareholders' equity				
Share capital		40,780	27,000	27,000
Reserves		40,454	30,588	35,954
Net profit/(loss)		10,311	5,952	4,492
Total net equity	8.13	**91,545**	**63,540**	**67,446**
Non-current liabilities				
Provisions for employee benefits	8.14	10,646	11,038	11,314
Provisions for risks and charges	8.15	1,396	1,008	8,653
Deferred tax liabilities	8.6	3,850	3,850	3,874
Non-current financial liabilities	8.16	12,000	1,778	13,478
Non-current lease liabilities	8.2	13,032	14,110	-
Other non-current liabilities	8.17	600	3,121	4,619
Total non-current liabilities		**41,524**	**34,905**	**41,938**
Current liabilities				
Trade payables	8.18	85,592	92,221	91,160
Current financial liabilities	8.16	22,456	27,163	25,708
Current lease liabilities	8.2	4,776	5,087	-
Current tax liabilities	8.9	471	410	1,437
Other current liabilities	8.18	15,379	13,492	14,381
Total current liabilities		**128,674**	**138,373**	**132,686**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**261,743**	**236,818**	**242,070**

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)	Notes	Year ended 31 December		
		2019	**2018**	**2017**
Revenue from contracts with customers	9.1	320,902	305,830	303,084
Cost of sales	9.2	(262,212)	(256,060)	(255,115)
Gross operating profit/(loss)		**58,690**	**49,770**	**47,969**
Sales and distribution costs	9.2	(31,717)	(27,864)	(26,488)
Administrative costs	9.2	(13,417)	(12,663)	(12,873)
Net write-downs of financial assets	9.3	(674)	(937)	(928)
Other revenues and income	9.4	5,141	4,577	4,916
Other operating costs	9.5	(3,464)	(3,153)	(3,399)
Operating profit/(loss)		**14,559**	**9,730**	**9,197**
Financial income	9.6	582	1,327	886
Financial expenses	9.6	(1,946)	(2,077)	(2,403)
Profit (loss) before taxes		**13,196**	**8,980**	**7,680**
Gross income taxes	9.7	(2,884)	(3,028)	(3,188)
Net profit/(loss)		**10,311**	**5,952**	**4,492**
Basic net profit/(loss) per share	9.8	0.35	0.22	0.17
Diluted net profit/(loss) per share	9.8	0.35	0.22	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Euro)	Notes	Year ended 31 December		
		2019	**2018**	**2017**
Net profit/(loss) (A)		**10,311**	**5,952**	**4,492**
a) Other components of comprehensive income that will not be subsequently reclassified to the income statement:				
Actuarial gains/(losses)	8.14	(343)	209	(239)
Tax effect on actuarial gains/(losses)	8.6	94	(67)	(11)
Total other components of comprehensive income that will not be subsequently reclassified to the income statement		**(249)**	**142**	**(250)**
Total other components of comprehensive income, net of tax effect (B)		**(249)**	**142**	**(250)**
Total comprehensive net profit/(loss) (A)+(B)		**10,062**	**6,094**	**4,242**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of Euro)	**Notes**	**Share capital**	**Reserves**	**Net profit/(loss)**	**Total net equity**
At 01 January 2017		**27,000**	**96,424**	**6,786**	**130,210**
Allocation of net profit/(loss) for the previous year		-	6,786	(6,786)	**-**
Restructuring of real estate portfolio		-	(63,467)	-	**(63,467)**
- New Property spin-off			*(50,394)*		***(50,394)***
- Corticella distribution			*(13,073)*		***(13,073)***
Aggregation of Corticella Molini e Pastifici S.p.A. business unit		-	(539)	-	**(539)**
Distribution of dividends		-	(3,000)	-	**(3,000)**
Total transactions with shareholders		**-**	**(67,006)**	**-**	**(67,006)**
Net profit/(loss)		-	-	4,492	**4,492**
Actuarial gains/(losses) net of the related tax effect		-	(250)	-	**(250)**
Total comprehensive net profit/(loss) for the year		**-**	**(250)**	**4,492**	**4,242**
At 31 December 2017		**27,000**	**35,954**	**4,492**	**67,446**
Allocation of net profit/(loss) for the previous year		-	4,492	(4,492)	**-**
Newlat Deutschland combination		-	(10,000)	-	**(10,000)**
Total transactions with shareholders		**-**	**(10,000)**	**-**	**(10,000)**
Net profit/(loss)		-	-	5,952	**5,952**
Actuarial gains/(losses) net of the related tax effect		-	142	-	**142**
Total comprehensive net profit/(loss) for the year		**-**	**142**	**5,952**	**6,094**
At 31 December 2018		**27,000**	**30,588**	**5,952**	**63,540**
Allocation of net profit/(loss) for the previous year			5,952	(5,952)	**-**
					-
Newlat Deutschland combination		-	(58,324)	-	**(58,324)**
Total transactions with shareholders		**-**	**(58,324)**	**-**	**(58,324)**
Share capital increase via IPO		13,780			**13,780**
Increase in the share premium reserve			66,147		**66,147**
IPO costs			(5,077)		**(5,077)**
Tax benefit - IPO costs			1,416		**1,416**
IPO total		**13,780**	**62,486**	**-**	**76,265**
Net profit/(loss)				10,311	**10,311**
Actuarial gains/(losses) net of the related tax effect			(249)		**(249)**
Total comprehensive net profit/(loss) for the year		**-**	**(249)**	**10,311**	**10,062**
At 31 December 2019		**40,780**	**40,455**	**10,311**	**91,545**

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of Euro)	Notes	At December 31		
		2019	2018	2017
Profit (loss) before taxes		13,196	8,980	7,680
- *Adjustments for:*				
Amortisation, depreciation and write-downs	8.1/8.2/8.3	13,692	13,561	9,392
Capital losses/(gains) on disposal	9.4/9.5	84	(71)	(22)
Financial expense/(income)	9.6	1,368	750	1,517
Other non-monetary changes	8.7/8.8/8.14/8.15	652	(6,627)	(7,804)
Cash flow generated /(absorbed) by operating activities before changes in net working capital		**28,991**	**16,593**	**10,763**
Increase (decrease) in inventory	8.7	1,184	484	(353)
Change in trade receivables	8.8	6,384	(375)	(8,015)
Increase (decrease) in trade payables	8.18	(10,821)	1,469	8,422
Change in other assets and liabilities	8.5/8.10/8.17/8.19	10,250	7,616	16,619
Use of provisions for risks and charges and for employee benefits	8.14/8.15	(1,084)	(294)	(337)
Taxes paid	8.9	(1,171)	(2,200)	(421)
Net cash flow generated /(absorbed) by operating activities		**33,733**	**23,293**	**26,678**
Investments in property, plant and equipment	8.1	(4,460)	(5,585)	(6,707)
Investments in intangible assets	8.3	(499)	(208)	(354)
Disposal of property, plant and equipment	8.1	-	73	66
Divestment of financial assets	8.5/8.11		276	14
Deferred fee for acquisitions	8.17/8.19	(2,521)	(1,998)	(1,999)
Newlat Deutschland combination	8.13	(58,324)	(10,000)	-
Delverde combination		(2,795)		
Aggregation of Corticella Molini e Pastifici S.p.A. business unit				(539)
Net cash flow generated /(absorbed) by investment activities		**(68,599)**	**(17,442)**	**(9,519)**
New long-term financial debt	8.16	15,000	-	34,000
Repayments of long-term financial debt	8.16	(9,866)	(11,624)	(3,396)
Change in current financial debt	8.16		1,379	(22,068)
Repayments of lease liabilities	8.3	(6,345)	(5,275)	-
IPO fee	8.13	76,544	-	
Net interest expense	9.6	(1,368)	(605)	(1,412)
Dividends paid	8.13		-	(3,000)
Net cash flow generated/(absorbed) by financing activities		**73,965**	**(16,125)**	**4,124**
Total changes in cash and cash equivalents		**39,097**	**(10,274)**	**21,283**

Cash and cash equivalents at start of year		**61,786**	**72,060**	**50,777**
Total changes in cash and cash equivalents		39,097	(10,274)	21,283
Cash and cash equivalents at end of year		**100,884**	**61,786**	**72,060**

1 NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

1.1 Scope

The Combined Consolidated Financial Statements are, first and foremost, an aggregation of the Newlat Food S.p.A. consolidated financial statements and the IFRS-compliant accounting data of Newlat GmbH, the German company that was under joint control before 29 October 2019, when it was acquired by Newlat Food S.p.A. The 2019 Combined Consolidated Financial Statements were drafted for the purpose of being added to the Registration Document prepared by the Company for the Public Purchase and Exchange Offer (the "OPAS") for all the ordinary shares of Centrale del Latte d'Italia S.p.A. (hereinafter also "CLI"), less the ordinary CLI shares already held by the Company, concerning the offering to the public (notably, to the CLI shareholders targeted in the OPAS and to Newlat Group S.A., the parent company of Newlat Food S.p.A.) of the Company's newly issued shares that will be awarded, as partial consideration, to CLI shareholders who take up the OPAS.

The Newlat Group, as per the consolidation scope reported in the 2019 Combined Consolidated Financial Statements, did not operate as a separate entity throughout the year ended 31 December 2019; as such, the 2019 Combined Consolidated Financial Statements are not necessarily representative of the results that would have been achieved had the Newlat Group operated as a separate entity throughout the year ended 31 December 2019.

1.2 General information

Newlat Food S.p.A. (hereinafter "**Newlat**", the "**Issuer**" or the "**Company**" and, together with its subsidiaries, the "**Newlat Group**" or the "**Group**") is an Italian joint-stock company operating under Italian law, with its shares listed on the STAR segment of the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. The Company has its registered office at Via J. F. Kennedy 16, Reggio Emilia.

The Newlat Group is a group operating in the food sector with a large and structured product portfolio organised into the following business units: Pasta, Milk Products, Bakery Products, Dairy Products, Special Products and Other Activities.

The Company is subject to management and coordination by the parent Newlat Group S.A. (hereinafter "**Newlat Group**"), a company that holds a majority stake, while the remaining share of equity was initially placed and subscribed by institutional investors during the IPO completed on 29 October 2019.

On 27 June 2019, the Issuer entered into an agreement with its parent Newlat Group for the purchase of the entire stake in Newlat GmbH (hereinafter also "**Newlat Deutschland**"), whose share capital then was wholly owned by Newlat Group (the "**Newlat Deutschland Purchase Agreement**").

The Newlat Deutschland Purchase Agreement made provision for: (i) the Issuer's shares to begin trading on the MTA as a condition precedent to the effective transfer of ownership of the Newlat Deutschland shares to Newlat; (ii) the consideration being determined based on the following formula: Average EBITDA recorded by Newlat Deutschland in 2016, 2017, 2018 and the first half of 2019 x 8 +/- the net financial position at the effective date of the transfer of ownership of Newlat Deutschland shares to Newlat. The methods of calculating the net financial position and EBITDA that were useful for determining the final consideration had been defined in the contract; (iii) payment of a provisional consideration, as a preliminary estimate of the final fee, of €55 million.

The provisional fee was paid by the Issuer to Newlat Group through the payment of: (i) an amount of €10 million on 31 December 2018 and (ii) an additional five tranches, for a total of €45 million, between 13 May and 18 June 2019.

On 2 December 2019, under the terms of the agreement, the parties determined the final consideration to be €68,324 thousand, i.e. an adjustment of €13,324 thousand. Newlat Food paid this price adjustment to Newlat Group S.A. on the same date.

On 21 December 2010, Newlat and Corticella, a wholly owned subsidiary of Newlat Group, then the sole shareholder of Newlat, entered into an agreement under which Newlat leased the business unit comprising some property, plant and equipment, employee relationships, client contracts, legal relationships pertaining to the Corte de' Frati (CR) and Bologna factories, and the right to use certain trademarks.

On 23 May 2017, Newlat and Corticella entered into an agreement, effective as of 1 July 2017, aimed at: (i) terminating the aforementioned business unit lease agreement dated 21 December 2010; (ii) selling to Newlat the business unit described below for €539 thousand (hereinafter the "**Corticella Business Unit Purchase**").

The business unit acquired from Corticella pursuant to the agreement entered into on 23 May 2017 (hereinafter the "**Corticella Business Unit**") comprises: (i) movable property, machinery, equipment, legal relationships and employee relationships pertaining to the business unit leased to Newlat under the agreement entered into on 21 December 2010; (ii) movable property, machinery, equipment, legal relationships and employee relationships pertaining to the business unit responsible for converting durum wheat into semolina, which takes place in the Molino part of the Bologna plant (not included in the business unit structure leased under the 21 December 2010 agreement); and (iii) Corticella trademarks (similarly not included in the business unit structure leased under the 21 December 2010 agreement).

The property assets owned by Corticella, which were expressly excluded from the Corticella Business Unit, were assigned to Newlat by way of a lease agreement with an option to buy. The consideration to be paid should this option be exercised was set at €17,002 thousand. Newlat then assigned its option to buy the properties to its sole shareholder Newlat Group.

In view of the Newlat Deutschland Purchase and the Corticella Business Unit Purchase, with sole reference to the part concerning the conversion of durum wheat into semolina at the Bologna plant, which are business combinations under common control pursuant to IFRS (as defined below), the Issuer is considered an "issuer with a complex financial history" pursuant to article 18 of Commission Delegated Regulation 2019/980. Therefore, in order to represent the assets and liabilities, results and cash flows for the periods under review in the Newlat Group's Combined Consolidated Financial Statements, it was necessary to include aggregated financial information.

This document contains Newlat Group financial information for the years 2019, 2018 and 2017, including, as of 1 January 2017, compared with the original structure of reference:

(i) amounts pertaining to Newlat Deutschland, under the binding agreement entered into on 27 June 2019 in relation to the Newlat Deutschland Purchase; and

(ii) amounts pertaining to the part of the Corticella business unit not previously leased, under the business unit purchase agreement entered into on 23 May 2017.

Data pertaining to the part of the Corticella business unit have been prepared on the basis of the historical assets and liabilities, results and cash flows contained in the Corticella financial statements, to which specific carve-out criteria have been applied.

The Combined Consolidated Financial Statements therefore derive from:

(i) the IFRS-compliant consolidated financial statements (as defined below) of Newlat Food S.p.A. for the years ended 31 December 2019, 2018 and 2017, approved by the Company's Board of Directors on 19 March 2020, 12 June 2019 e 6 June 2018 respectively, and audited by PricewaterhouseCoopers S.p.A., which issued unqualified reports on 27 March 2020, 19 June 2019 and 25 June 2018 respectively;

(ii) the IFRS-compliant accounting data (as defined below) of Newlat Deutschland for the years ended 31 December 2019, 2018 and 2017, audited by PricewaterhouseCoopers GmbH for 2019 and PKF Fasselt Schlage for 2018 and 2017, which issued unqualified reports on 13 March 2020, 19 June 2019 and 25 May 2018 respectively; and

(iii) the accounts of Corticella at 30 June 2017.

Below is a description of the main events occurring during the period under review that affected the financial information contained in these Combined Consolidated Financial Statements.

Restructuring of the real estate portfolio

On 7 March 2017, the Newlat Extraordinary Shareholders' Meeting voted in favour of the proportional partial spin-off project involving the transfer of part of Newlat's assets to the newly created company New Property S.p.A. (hereinafter also "New Property"). The spin-off, approved on 24 February 2017, was prepared on the basis of the book values of assets and liabilities as at 31 December 2016.

The spin-off deed was signed on 23 May 2017 and came into effect on 1 June 2017. The transaction in question saw a proportional partial spin-off of some of Newlat's assets to the newly created company New Property which, in exchange for the assets being spun off, assigned its own shares to Newlat's sole shareholder at the time, (hereinafter, the "**New Property Spin-off**").

The property assets owned by New Property were assigned to Newlat under specific lease contracts.

In addition, on 31 December 2017, the real estate assets of Corticella, which were expressly excluded from the scope of the Corticella Business Unit Purchase, were carved out because Newlat assigned the option to buy the properties to the sole shareholder Newlat Group. These properties had previously been recognised under a business unit lease contract and then a lease contract with an option to buy at a cost of €17,002 thousand.

The New Property Spin-off and the carve-out of Corticella's property assets are described jointly as the "**Restructuring of the Real Estate Portfolio**".

Unlike the Newlat Deutschland Purchase and the Corticella Business Unit Purchase, the Restructuring of the Real Estate Portfolio is not classed as a business combination under common control within the meaning of IFRS (as defined below),but rather as a spin-off of fixed assets and financial liabilities. The net assets being spun off do not fulfil the criteria for being defined as a business; rather, they are a group of assets and related financial liabilities. Consequently, when preparing the Combined Consolidated Financial Statements, the effects of these transactions were recognised consistently along with the respective dates on which they took effect, in accordance with IFRS.

The table below summarises the effects of the Restructuring of the Real Estate Portfolio on Newlat's assets and liabilities as at the effective date of the transactions described above:

(in thousands of Euro)	**Assets**	**Liabilities**
Property, plant and equipment	(190,082)	-
Investment property	(17,280)	-
Other receivables and current assets	32,818	-
Shareholders' equity	-	(63,467)
Deferred tax liabilities	-	(28,833)
Financial liabilities	-	(46,924)
Other liabilities	-	(35,320)
TOTAL	**(174,544)**	**(174,544)**

The items “property, plant and equipment” and “investment property” include the real estate assets being spun off and carved out.

The other receivables and current assets refer to receivables from New Property arising from the net difference between the book values of the asset and liability items being spun off between the New Property Spin-off effective date and 31 December 2016, i.e. the reference date for the statement of account included in the spin-off project.

Financial liabilities refer to: (i) payables to banks arising from three loan agreements that were attributed to the beneficiary as part of the transaction in question; and (ii) the debt resulting from two loans awarded by the parent company Group in the respective amounts of €25,000 thousand and €15,000 thousand. These legal relationships were transferred as part of the New Property Spin-off.

The deferred tax liabilities are associated with the real estate portfolio because they are recognised as part of the revaluations carried out when transitioning to IFRS (as defined below) in 2014 with regard to the land and buildings being spun off.

The other liabilities refer to: (*i*) the payable of €17,002 thousand to Corticella as the contractually agreed purchase option, surrendered to Newlat Group, relating to the real estate portfolio; (ii) the outstanding payable of €9,150 thousand to Newlat Group in relation to the purchase of 100% of the share capital of IAR S.p.A. (subsequently merged by incorporation into Newlat); and (iii) the outstanding payable of €9,168 thousand on the redemption price for the plant in Reggio Emilia.

Acquisition of Delverde Industrie Alimentari S.p.A

On 9 April 2019, Newlat entered into a contract with Molinos del Plata S.L.U. and Molinos Rio de la Plata S.A. to buy shares representing the entire share capital of Delverde Industrie Alimentari S.p.A. (hereinafter the “Delverde Acquisition”). The transaction was executed simultaneously with the signing of the contract.

The contract for the Acquisition of Delverde provided for a provisional price, paid by Newlat Food on the execution date, of €3,775 thousand, which was subsequently adjusted on the basis of the difference between the values of the net financial position and working capital conventionally determined by the parties and the actual values on the execution date. The methods for calculating the net financial position and working capital used to determine the consideration have been defined within the scope of the contract. Further (decreasing) adjustments to the price were envisaged, on the one hand with reference to contingent liabilities relating to the period prior to the transaction execution date due to discount agreements in favour of large-scale retailers, and, on the other hand, with reference to the non-collection of receivables, net of the related provision for bad debts recorded in the financial statements. The positive price adjustment for Newlat amounted to €147 thousand, collected by Newlat Food on 3 December 2019.

Merger by incorporation of Delverde Industrie Alimentari S.p.A. into Newlat Food S.p.A.

On 6 September 2019, the Board of Directors of Newlat S.p.A. approved the proposed merger by incorporation of the wholly owned subsidiary Delverde Industrie Alimentari S.p.A. The transaction falls within the scope of the Newlat Group 2020-2022 Strategic Plan, with continuation of the policy of improved efficiency, streamlining and simplification of production flows and processes, allowing synergies to be achieved and overall costs to be reduced as of 2020. This extraordinary merger operation has no effect on the Group's Combined Consolidated Financial Statements at 31 December 2019, which already reflect Delverde's results from the date of acquisition (9 April 2019).

On 17 September 2019, by a notarial deed of merger, in the presence of the Notary Ciro De Vivo, the parent company Newlat Food S.p.A. resolved to incorporate Delverde Industrie Alimentari S.p.A., with subsequent legal effects on 31 December 2019 and accounting effects on the date of acquisition (i.e. 9 April 2019).

The transaction was booked in accordance with the provisions contained in IFRS 3 – "*Business Combinations*" since it can be categorised as an acquisition. No difference emerged when offsetting the value of the equity investment against the corresponding amount of equity of the incorporated company restated in accordance with IFRS.

The accounting values, prepared in compliance with IAS/IFRS, not including definitive purchase price allocation records, of the subsidiary Delverde Industrie Alimentari S.p.A at 31 December 2019 are given below, before the records of the merger by incorporation into Newlat:

(in thousands of Euro)	*IFRS reporting package*
Revenue from contracts with customers	11,431
Cost of sales	(8,923)
Gross operating profit/(loss)	**2,509**
Sales and distribution costs	(1,626)
Administrative costs	(2,041)
Net write-downs of financial assets	0
Other revenues and income	658
Other operating costs	-124
Operating profit/(loss)	**-624**
Financial income	1
Financial expenses	-162
Profit (loss) before taxes	**-785**
Income taxes	64
Net profit/(loss)	**-721**

(in thousands of Euro)	*IFRS reporting package*
Non-current assets	
Property, plant and equipment	2,261
Right-of-use assets	4,358
Intangible assets	183
Non-current financial assets measured at fair value through profit or loss	10
Financial assets measured at amortised cost	9
Prepaid tax assets	0
Total non-current assets	**6,821**
Current assets	
Inventories	2,513
Trade receivables	2,563
Current tax assets	58
Other receivables and current assets	410
Current financial assets measured at fair value through profit or loss	0
Cash and cash equivalents	883
Total current assets	**6,377**
TOTAL ASSETS	**13,198**
Shareholders' equity	**2,753**
Non-current liabilities	
Provisions for employee benefits	129
Provisions for risks and charges	299
Deferred tax liabilities	68
Non-current financial liabilities	0
Non-current lease liabilities	3,459
Other non-current liabilities	0
Total non-current liabilities	**3,955**
Current liabilities	
Trade payables	4,073
Current financial liabilities	381
Current lease liabilities	316
Current tax liabilities	0
Other current liabilities	1,721
Total current liabilities	**6,491**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,198**

Merger by incorporation of Centrale del Latte di Salerno S.p.A. into Newlat Food S.p.A.

On 6 September 2019, the Board of Directors of Newlat S.p.A. approved the proposed merger by incorporation of the wholly owned subsidiary Centrale del Latte di Salerno S.p.A. The transaction falls within the scope of the Newlat Group 2020-2022 Strategic Plan, with continuation of the policy of improved efficiency, streamlining and simplification of production flows and processes, allowing synergies to be achieved and overall costs to be reduced as of 2020. This extraordinary merger operation did not have any effects on the Group's Combined Consolidated Financial Statements at 31 December 2019, as Centrale del Latte di Salerno was already previously wholly owned by the Parent Company.

On 17 September 2019, by a notarial deed of merger, in the presence of the Notary Ciro De Vivo, the parent company Newlat Food S.p.A. resolved to incorporate Centrale del Latte di Salerno S.p.A. with subsequent legal effects on 31 December 2019 and accounting and tax effects backdated to 1 January 2019.

With no specific indications in the international accounting standards, the transaction was recognised according to the provisions of the Assirevi document OPI no. 2R which, in the case of mergers not classified as a purchase, require the application of the principle of continuity of value, given the lack of an exchange with third party economies. In particular, this interpretation gives importance to the existence of a control relationship and to the previous purchase cost, and relative purchase price allocation, deriving from the Group's previous consolidated financial statements. As laid down in OPI no. 2R, the difference emerging when offsetting the value of the equity investment and the corresponding share of equity of the incorporated company shown in the consolidated financial statements, totalling €4,708 thousand, was classified as an increase in shareholders' equity in the amount of €916 thousand (as retained earnings of the investee) and as goodwill in the amount of €3,863 thousand, being consistent with the values with the Consolidated Financial Statements at 31 December 2018.

Listing on the Stock Exchange on 29 October 2019 and accounting for listing costs

On 29 October 2019, Newlat Food S.p.A. successfully listed its shares on the STAR segment of the MTA, organised and managed by Borsa Italiana. The transaction, carried out entirely in the form of a Public Offer for Subscription, raised €79,927 thousand from subscription fees for the newly issued shares, including the issue premium, with a corresponding gross increase in consolidated shareholders' equity at 31 December 2019 (share capital and share premium reserve). In accordance with the provisions of IAS 32, this IPO's listing costs, amounting to €5,077 thousand, were recorded as a direct reduction in shareholders' equity, net of the related tax benefit of €1,416 thousand, giving a total net increase in consolidated shareholders' equity at 31 December 2019 of €76,265 thousand.

The aforementioned extraordinary transactions carried out by the Newlat Group in the year ended 31 December 2019 affect, albeit immaterially, the comparability of the Combined Consolidated Financial Statements at 31 December 2019 with the combined consolidated accounting data for the years ended 31 December 2018 and 2017.

2 SUMMARY OF ACCOUNTING STANDARDS AND CRITERIA ADOPTED FOR PREPARING THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

The accounting standards and measurement criteria adopted in the drafting of the Combined Consolidated Financial Statements are set out below.

The Combined Consolidated Financial Statements were drafted based on the information available when the Newlat Food S.p.A. consolidated financial statements, the Newlat Deutschland IFRS-compliant accounting data (as defined below) and the Corticella statements of account were respectively drafted. As such, the Combined Consolidated Financial Statements do not reflect the effects of events that took place after such dates.

The Combined Consolidated Financial Statements were prepared with no proforma adjustment and consistent with the book values in the Newlat Food Group’s consolidated financial statements, in Newlat Deutschland’s IFRS-compliant accounting data (as defined below) and in Corticella’s statements of account.

2.1 Basis of preparation

The Combined Consolidated Financial Statements consist of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the statement of cash flows and the notes.

The layout adopted for the statement of financial position provides for the separation of assets and liabilities between current and non-current.

An asset is classified as current when:

- it is assumed that this activity is carried out, or is owned for sale or consumption, in the normal course of the operating cycle;
- it is held primarily for the purpose of trading;
- it is assumed that it will be realised within twelve months of the reporting date;
- it consists of cash and cash equivalents (unless it is prohibited to exchange it or use it to settle a liability for at least twelve months from the reporting date).

All other assets are classified as non-current. In particular, IAS 1 includes property, plant and equipment, intangible assets and long-term financial assets as non-current assets.

A liability is classified as current when:

- it is expected to be extinguished in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it will be extinguished within twelve months of the reporting date;
- there is no unconditional right to defer its settlement for at least twelve months from the reporting date. Clauses of a liability that could, at the discretion of the counterparty, result in its extinction through the issue of equity instruments do not affect its classification.

The chosen income statement layout provides for the classification of costs by destination.

The statement of financial position, the income statement and the statement of cash flows in the Combined Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017 reflect the layout used in Newlat's consolidated financial statements at 31 December 2019 and 2018. To enable better comparability of the data, including for the year ended 31 December 2017, the layouts of the statement of financial position, income statement and statement of cash flows applied in 2018 to take on board the changes introduced by IFRS 9, IFRS 15 and IFRS 16 have been adopted retrospectively.

The statement of other comprehensive income includes the result for the year and, with the same categories, income and expenses that, according to IFRSs, are directly recognised under equity.

The statement of changes in equity includes, in addition to the total gains / losses for the period, the amounts of transactions with shareholders and movements in reserves during the year.

In the statement of cash flows, the financial flows from operating activities are presented using the indirect method, under which the profit or loss for the year is adjusted by the effects of non-monetary operations, by any deferral or provision of previous or future operating inflows or outflows, and by elements of revenue or costs related to financial flows deriving from investment activities or financing activities.

The Combined Consolidated Financial Statements have been prepared in euros, the functional currency of the Group. The statement of financial position, income statement, statement of cash flows, explanatory notes and tables are in thousands of euro, unless otherwise indicated.

The Combined Consolidated Financial Statements were prepared:

- on the basis of the best knowledge of IFRSs and taking into account the best doctrine on the subject;

- under the going-concern principle, in accordance with the principle of accrual accounting, in compliance with the principle of materiality of information and substance over form, and with a view to encouraging consistency with future presentations. The assets and liabilities and costs and revenues are not offset against each other, unless this is permitted or required by international accounting standards;

- on the basis of the conventional historical cost criterion, except for the measurement of financial assets and liabilities in cases where application of *the fair value* criterion is mandatory.

Criteria for preparation of the Combined Consolidated Financial Statements

The Combined Consolidated Financial Statements were prepared in order to represent the assets, liabilities, revenues and costs directly and indirectly attributable to the Newlat Group, including Newlat Deutschland and, up to 30 June 2017, the part of the Corticella business unit, as described above.

The financial information was prepared by including the figures relating to Newlat Deutschland and to the part of the Corticella business unit as of 1 January 2017.

In particular, Newlat Deutschland was included by aggregating its data to the original structure of reference in the consolidated financial statements of the Newlat Group, eliminating the statement of financial position and income statement data relating to transactions between the Newlat Group and other group companies.

Data pertaining to the part of the Corticella business unit, aggregated until 30 June 2017, have been prepared on the basis of the historical assets and liabilities, results and cash flows contained in the Corticella financial statements, to which specific carve-out criteria have been applied.

In relation to the criteria for aggregating financial information, it should be noted that the Newlat Deutschland Purchase and the Corticella Business Unit Purchase are business combinations *under common control* and, as such, are recognised in accordance with document OPI No. 1 R (ASSIREVI preliminary guidance on IFRS). In particular, these business combinations were implemented for purposes other than the transfer of control, and essentially represent a simple corporate reorganisation. With this in mind, since the aforementioned transactions do not have a significant influence on the cash flows of the net assets transferred *before* and *after* acquisition, they were recognised on the basis of continuity of values. In addition, it should be noted that, since these transactions are settled by payment of a consideration in cash, the difference between the transfer value (amount of the consideration in cash) and the historical book values transferred represents a transaction with shareholders to be recognised as a distribution of the purchasing entity's shareholders' equity.

As reported earlier, unlike the Newlat Deutschland Purchase and the Corticella Business Unit Purchase, the Restructuring of the Real Estate Portfolio is not classed as a business combination under common control within the meaning of IFRS (as defined below), but rather as a spin-off of fixed assets and financial payables, which do not fulfil the criteria for being defined as a business. Consequently, when preparing the Combined Consolidated Financial Statements, the effects of these transactions were recognised consistently along with the respective dates on which they took effect, in accordance with IFRS.

2.2 Declaration of conformity with international financial reporting standards

The Combined Consolidated Financial Statements are prepared in accordance with IFRSs that, as at each reporting date, had been endorsed by the European Union. IFRSs means all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

2.3 Consolidation criteria and methodology

The Combined Consolidated Financial Statements include the results, assets and liabilities and cash flows of the Issuer and the subsidiaries approved by the respective administrative bodies, prepared on the basis of their relative accounting situations and, where applicable, adjusted accordingly to bring them into compliance with IFRS. As described above, the Combined Consolidated Financial Statements include, as of 1 January 2017, the assets and liabilities, results and cash flows of Newlat Deutschland and the Corticella Business Unit, with sole reference to the part concerning the conversion of durum wheat into semolina at the Bologna plant.

The reporting date of the consolidated entities is aligned with that of the Issuer.

The table below summarises, with reference to the companies included in the scope of the Combined Consolidated Financial Statements at 31 December 2019 (after the mergers by incorporation of subsidiaries Delverde and Centrale del Latte di Salerno into Newlat), information concerning the company name, the registered office, the functional currency and the share capital at 31 December 2019:

Name	Registered Office	Currency	Share capital at 31 December 2019 (in EUR)
Newlat Food S.p.A.	Italy - Via J.F. Kennedy 16, Reggio Emilia	EUR	40,780,482
Newlat GmbH Deutschland	Germany - Franzosenstrabe 9, Mannheim	EUR	1,025,000

It should be noted that at the reference dates of the Combined Consolidated Financial Statements, both the companies included within the scope were consolidated using the line-by-line method and no minority interests were recognised.

The Combined Consolidated Financial Statements also include the assets and liabilities, results and cash flows of the part of the Corticella Business Unit, with sole reference to the part concerning the conversion of durum wheat into semolina at the Bologna plant, as of 1 January 2017 and until 30 June 2017, based on the effective date of the Corticella Business Unit Purchase.

In preparing the Combined Consolidated Financial Statements, all balances and transactions carried out between the companies included in the scope have been eliminated and therefore the Combined Consolidated Financial Statements do not include any of the transactions in question.

During the three-year period under review, there were no additional changes to the consolidation scope of the Combined Consolidated Financial Statements, except the acquisition of Delverde on 9 April 2019 (later merged by incorporation into Newlat on 31 December 2019).

Subsidiaries

An investor controls an entity when: (i) it is exposed, or has rights, to variable returns from its involvement with the entity and (ii) it has the ability to affect those returns through its power over said entity. The existence of control is checked every time facts and/or circumstances point to a change in one of the aforementioned elements constituting control. Subsidiaries are consolidated using the line-by-line method from the date on which control was acquired. They cease to be consolidated from the date on which control is transferred to third parties. The following criteria were adopted for line-by-line consolidation:

- assets and liabilities and income and expenses of the subsidiaries are consolidated line-by-line, attributing to the minority shareholders, where applicable, their portion of equity and net profit/loss for the period; these portions are shown separately in equity and the statement of other comprehensive income;

- gains and losses, including related tax effects, on transactions between companies consolidated on a line-by-line basis and unrealised gains and losses on transactions with third parties are derecognised, except for losses that are not derecognised if the transaction provides evidence of impairment of the transferred asset. The mutual debit and credit positions, costs and revenues and financial expenses and income are also eliminated.

Conversion of items in foreign currency

Transactions in currencies other than the functional currency are recognised at the exchange rate on the date of the transaction. Monetary assets and liabilities in currencies other than the euro are then adjusted at the exchange rate in place on the reporting date. Any forex differences are reflected in the income statement under "Foreign exchange gains and losses".

Intra-group transactions

Profits arising from transactions between consolidated companies and not yet realised with respect to third parties are eliminated, as are the receivables, payables, income and expenses, guarantees, commitments and risks between consolidated companies. Intra-group losses are not eliminated because they are considered representative of impairment of the transferred asset.

2.4 Accounting standards and measurement criteria

Adopted accounting standards

The Combined Consolidated Financial Statements were prepared based on the IFRSs in force issued by the International Accounting Standards Board ("**IASB**") and endorsed by the European Union at the closing date of each year in question.

The Group chose early adoption, from 1 January 2018, of IFRS 16 - "*Leases*", which came into effect on 1 January 2019, adopting the modified retrospective approach. IFRS 16 replaced IAS 17 - "*Leasing*" as well as the IFRIC 4 - "*Determining whether an Arrangement contains a Lease*", SIC 15 - "*Operating Leases Incentives*" and SIC27 - "*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*" interpretations.

The Group applied the new international accounting standards IFRS 9 - "*Financial Instruments*" and IFRS 15 - "*Revenues from Contracts with Customers*" from 1 January 2018, when they came into force, without restating comparative data.

Below are the criteria used with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the criteria used to recognise the income components.

Property, plant and equipment

Property, plant and equipment is recognised as such only if the following conditions are met simultaneously:

- it is probable that the future economic benefits related to the asset will be enjoyed by the company;
- the cost can be reliably determined.

Property, plant and equipment are initially measured at cost, defined as the monetary or equivalent amount paid or the *fair value* of other considerations made to acquire an asset, at the time of purchase or replacement. Subsequent to initial recognition, property, plant and equipment are valued using the cost method, net of recorded depreciation and any accumulated impairment losses.

The cost includes the costs directly incurred to make their use possible, as well as any dismantling and removal costs that will be incurred as a result of contractual obligations that require the return of the asset to its original condition.

Costs incurred for maintenance and repairs of an ordinary and/or cyclical nature are directly charged to the income statement when incurred. The capitalisation of the costs inherent in the extension, modernisation or improvement of structural elements owned or used by third parties shall be carried out to the extent that they meet the requirements to be classified separately as an asset or part of an asset.

Property, plant and equipment are depreciated on a straight-line basis over their useful lives. The useful life estimated by the Group for the various categories of property, plant and equipment is shown below:

Category of assets	**Useful Life**
Land and buildings	10-33 years
Plant and machinery	4-20 years
Industrial and commercial equipment	2-9 years
Other assets	5-20 years

At the end of each financial year, the Group checks whether significant changes have occurred in the expected characteristics of the economic benefits deriving from the capitalised assets and, if so, modifies the depreciation criterion, which is considered a change in accounting estimate in accordance with IAS 8.

The value of the asset is completely reversed at the time of its disposal or when the company expects that it will not be able to derive any economic benefit from its disposal.

Capital grants shall be accounted for when it is reasonably certain that they will be received and all conditions relating to them are met. Contributions are then deducted from the value of assets or suspended among liabilities and credited pro rata to the income statement in relation to the useful life of the related assets.

Intangible assets

An intangible asset is an asset that simultaneously fulfils the following conditions:

- it is identifiable;
- it is non-monetary;
- it has no physical consistency;
- it is under the control of the company preparing the accounts;
- it is expected to produce future economic benefits for the company.

If an asset does not meet the above requirements to be defined as an intangible asset, the expense incurred to acquire it or generate it internally is recognised as a cost when incurred.

Intangible assets are initially stated at cost. The cost of intangible assets acquired from outside includes the purchase price and any directly attributable costs.

Internally generated goodwill is not recognised as an asset, neither are intangible assets arising from research (or the research phase of an internal project).

An intangible asset arising from development or the development phase of an internal project is recognised if compliance with the following conditions can be demonstrated:

- the technical feasibility of completing the intangible asset so as to be available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the ability to use or sell the intangible asset;
- the manner in which the intangible asset is capable of generating future economic benefits and in particular the existence of a market for the product of the intangible asset or for the intangible asset itself or, if it is to be used for internal purposes, its usefulness;
- the availability of adequate technical, financial and other resources to complete the development and the use or sale of the asset;
- the ability to reliably measure the cost attributable to the intangible asset during its development.

Intangible assets are measured using the cost method in accordance with one of the two different criteria set out in IAS 38 (cost model and revaluation model). The cost model requires an intangible asset to be recognised at cost after initial recognition, net of accumulated amortisation and any accumulated impairment losses.

The useful life estimated by the Group for the various categories of intangible assets is shown below:

Category of assets	Useful Life
Goodwill	unlimited
Drei Glocken and Birkel brands	unlimited
Other brands	18 years
Software licences	5 years
Other assets	5 years

The following main intangible assets can be identified within the Group:

Goodwill

Goodwill is classified as an intangible asset with an indefinite useful life and is initially recognised at cost, as described earlier, and then subjected to (at least) annual testing to determine whether it has impaired (for more details, see the below paragraph "Impairment of goodwill, property, plant and equipment, intangible assets and right-of-use assets"). Reversals are not permitted in the case of a previous write-down due to impairment.

Trademarks with an indefinite useful life

Trademarks, for which the conditions for classification as intangible assets with an indefinite useful life are met, are not amortised systematically and are *subject to impairment* testing at least once a year.

Intangible assets with a finite useful life

Intangible assets with a finite useful life are recognised at cost, as previously described, net of accumulated amortisation and any impairment losses.

Amortisation begins when the asset becomes available for use and is apportioned systematically based on the asset's estimated useful life; the criteria mentioned in the paragraphs "Property, plant and equipment" and "Impairment of goodwill, property, plant and equipment, intangible assets and right-of-use assets", respectively, contain the criteria for the value to be amortised and the recoverability of the book value.

Investment property

An investment property is an immovable property (i.e. a piece of land, a building or part of it, or both) owned for the purpose of receiving rent on it or for focusing on the long-term appreciation of invested capital, or for both of these reasons. Possession may be exercised either by way of ownership or under a finance *lease* agreement.

An investment property must be initially valued at cost, including the costs of the acquisition in the case of both purchase and self-construction of the investment property. In the first case, the purchase cost includes, in addition to the purchase price and by way of example, professional fees for the provision of legal services, taxes for the transfer of ownership and any other cost of the transaction. Following initial measurement, investment property is valued at depreciated cost.

Lease contracts

a) Right-of-use assets and lease liabilities – 31 December 2019 and 2018 (IFRS 16)

The Group chose early adoption, from 1 January 2018, of the new accounting standard IFRS 16 - "*Leases*", which replaced IAS 17 - "*Leasing*" and its related interpretations.

In accordance with IFRS 16, a contract is, or contains, *a lease* if, in exchange for consideration, it conveys the right to control the use of a specified asset for a period of time. The contract is re-evaluated to verify whether it is, or contains, *a lease* only if the terms and conditions of the contract are changed.

For a contract that is, or contains, *a lease*, each *lease* component is separated from the *non-lease* components, unless the Group applies the practical expedient referred to in paragraph 15 of IFRS 16. This practical expedient allows the lessee to choose, for each class of underlying asset, not to separate the *non-lease* components from *the lease* components and to recognise each *lease* component and the associated *non-lease* components as a single *lease component.*

The duration of *the lease* is determined as the non-cancellable period of *the lease*, to which must be added both the following periods:

- periods covered by a *lease* extension option, if the lessee is reasonably certain to exercise the option; and
- periods covered by *the lease* termination option, if the lessee is reasonably certain not to exercise the option.

In assessing whether the lessee is reasonably certain to exercise the option to extend the *lease* or not to exercise the option to terminate the *lease*, all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option shall be considered. The lessee must redefine *the lease* term in the event of a change in the non-cancellable *lease* period.

At the effective date of the contract, the Group recognises the right-of use-asset and the related *lease* liability.

At the effective date of the contract, the right-of-use asset is valued at cost. The cost of the right-of-use asset includes:

- the initial value of *the lease* liability;
- payments due for *the lease* made on or before the effective date, net of *the lease* incentives received;
- the initial direct costs incurred by the lessee; and
- the estimate of the costs to be incurred by the lessee for the dismantling and removal of the underlying asset and for the restoration of the site where it is located or for the restoration of the underlying asset under the terms and conditions of *the lease*, unless such costs are incurred for the production of inventories.

On the lease start date, the lessee shall measure the *lease* liability at the current value of the payments due for *the lease* but not yet paid. Payments due for *the lease* include the following amounts:

- fixed payments, net of any outstanding lease incentives;
- variable payments due for the lease that depend on an index or rate, initially measured using an index or rate on the effective date;
- the amounts expected to be paid by the lessee as guarantees of the residual value;
- the exercise price of the purchase option, if the lessee is reasonably certain to exercise the option; and
- *lease* termination penalty payments, if *the lease* term takes into account the lessee's exercise of *the lease* termination option.

Payments due for *the lease* must be discounted using the implicit interest rate of the *lease*, if it can be easily determined. If this is not possible, the lessee must use its marginal lending rate, i.e. the incremental interest rate that the company would have to pay to obtain a loan of the same duration and amount as the lease agreement.

Subsequent to initial recognition, right-of-use assets are measured at cost:

- net of accumulated depreciation/amortisation and impairment; and
- adjusted to take into account any restatement of *the lease* liability.

Subsequent to initial recognition, *the lease* liability is measured:

- by increasing the book value to take account of interest;
- by decreasing the book value to take account of lease payments that have been made; and
- by restating the book value to take account of any new valuations or changes in the lease or revision of payments due for fixed *leases*.

In the case of *lease* changes that do not constitute a separate *lease*, the right-of-use asset is restated (up or down), in line with the change in *the lease* liability at the date of the change. The *lease* liability is restated according to the new terms of the lease agreement, using the discount rate at the date of the change.

It should be noted that the Group makes use of two exemptions under IFRS 16, with reference to: (i) short-term leases (i.e. leases with a duration of 12 months or less from the effective date), in relation to certain categories of fixed assets, and (ii) *leases* of low-value assets (i.e. when the value of the underlying asset, if new, is less than $5,000, for example). In such cases, the right-of-use asset and the related *lease* liability are not recognised, and the payments due for *the lease* are recognised in the income statement.

b) Lease contracts at 31 December 2017 (IAS 17)

The assets acquired under a finance lease, substantially transferring all the risks and benefits of ownership to the Group, are recognised as property, plant and equipment at the lesser of their value and the present value of the minimum lease payments outstanding, as a counter-entry to the associated payable. Lease payments are broken down into two components: financial expense, which is recorded in the income statement, and capital repayment, which is recognised as a reduction in financial debt.

If the lessor retains substantially all the risks and benefits of ownership of the assets, this is classed as an operating lease. Operating lease costs are recognised on a straight-line basis in the income statement for the duration of the lease.

Impairment of goodwill, property, plant and equipment, intangible assets and right-of-use assets

On each reporting date, a test is carried out to ascertain whether there are any indicators of impairment of property, plant and equipment and intangible assets that are not fully depreciated/amortised or of indefinite useful life.

Where these indicators are present, the recoverable value of the above-mentioned assets is estimated, and any write-down is recognised in the Income Statement. The recoverable value of an asset is the higher of *the fair value*, less costs to sell, and the related value in use, determined by discounting the estimated future cash flows for that asset, including, if they are significant and can be reasonably determined, those arising from the sale at the end of its useful life, net of any costs of disposal. In determining the value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the current market valuations of the cost of the money, in proportion to the period of the investment and the specific risks of the asset.

For an asset that does not generate sufficiently independent cash flows, the recoverable value is determined in relation to the cash generating unit (CGU) to which said asset belongs.

Impairment is recognised in the income statement if the book value of the asset, or of the CGU to which it is allocated, is higher than its recoverable value. The impairment of a CGU is initially recognised as a reduction in the book value of any goodwill attributed to it and, therefore, as a reduction in other assets, in proportion to their book value and within the limits of their recoverable value. If the conditions for a previous write-down no longer exist, the book value of the asset is restored via the income statement, up to the limit of the net book value that the asset in question would have had without write-down and amortisation/depreciation. Reversals of goodwill impairment are not permitted in the case of a previous write-down due to impairment.

Financial assets

At the time of initial recognition, financial assets must be classified as "Financial assets at amortised cost", "Financial assets at *fair value* through other comprehensive income" or "Financial assets at *fair value* through profit or loss" on the basis of the following elements:

- the entity's *business* model for the management of the financial assets; and
- the characteristics of the financial asset's contractual cash flows.

Financial assets are subsequently derecognised only if the disposal entails the substantial transfer of all risks and rewards connected to the assets. On the other hand, if a significant portion of the risks and rewards relating to the disposed financial assets has been retained, they continue to be recognised in the financial statements, even if legally their ownership has been effectively transferred.

Financial assets measured at amortised cost

a) Financial assets measured at amortised cost – 31 December 2019 and 2018 (IFRS 9)

This category includes the financial assets that meet both of the following conditions:

- the financial asset is held according to a "*hold to collect*" business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

These assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. Subsequent to initial recognition, the financial assets in question are measured at amortised cost using the effective interest method. The amortised cost method is not used for assets valued at historical cost whose short duration makes the effect of discounting negligible, those without a defined maturity or for revocable credit lines.

This category mainly includes trade receivables arising from the transfer of goods and the provision of services, recognised in accordance with the terms of the contract with the customer in accordance with IFRS 15 and classified according to the nature of the debtor and/or the expiry date of the receivable (this definition includes invoices to be issued for services already rendered).

Moreover, since trade receivables are generally short-term and do not provide for the payment of interest, the amortised cost is not calculated, and they are recognised on the basis of the nominal value reported in invoices issued or contracts concluded with customers: this provision is also adopted for trade receivables with a contractual maturity of more than 12 months, unless the effect is particularly significant. The choice stems from the fact that the amount of short-term receivables is very similar whether you apply the historical cost method or the amortised cost method, and the impact of discounting would therefore be wholly negligible.

Trade receivables are subject to *impairment* testing in accordance with IFRS 9. For the purposes of the measurement process, trade receivables are divided into maturity time bands. For *performing* loans, a collective assessment is made by grouping the individual exposures on the basis of similar credit risk. The valuation is based on losses recorded for assets with similar credit risk characteristics based on historical experience and takes into account expected losses.

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

These are unlisted financial assets other than derivatives with certain or calculable payments and a fixed maturity.

Such assets are initially recognised at fair value, which is usually the agreed consideration or the present value of the amount that will be collected. They are then measured at amortised cost, using the effective interest method, which is reduced in the event of impairment.

This category mainly includes trade receivables arising from the transfer of goods and the provision of services, recognised in accordance with the terms of the contract with the customer in accordance with IAS 18 and classified according to the nature of the debtor and/or the expiry date of the receivable (this definition includes invoices to be issued for services already rendered).

Moreover, since trade receivables are generally short-term and do not provide for the payment of interest, the amortised cost is not calculated, and they are recognised on the basis of the nominal value reported in invoices issued or contracts concluded with customers: this provision is also adopted for trade receivables with a contractual maturity of more than 12 months, unless the effect is particularly significant. The choice stems from the fact that the amount of short-term receivables is very similar whether you apply the historical cost method or the amortised cost method, and the impact of discounting would therefore be wholly negligible.

Trade receivables are subject to *impairment* testing in accordance with IAS 39. For the purposes of the measurement process, trade receivables are divided into maturity time bands. For *performing* loans, a collective assessment is made by grouping the individual exposures on the basis of similar credit risk. The valuation is based on losses recorded for assets with similar credit risk characteristics based on historical experience.

Financial assets at fair value through other comprehensive income

a) Financial assets at fair value through other comprehensive income – 31 December 2019 and 2018 (IFRS 9)

This category includes the financial assets that meet both of the following conditions:

- the financial asset is held according to a "*hold to collect and sell*" business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

These assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. Following initial recognition, equity investments that do not qualify as subsidiaries, associates or joint control investees are measured at *fair value*, and amounts recognised as a counter-entry in equity should not be subsequently transferred to the income statement, even in the case of disposal. The only component referring to the equity instruments in question subject to recognition in the income statement is the relative dividends.

For the equity instruments included in this category and not listed in an active market, the cost criterion is used to estimate fair value only on a residual basis and in limited circumstances, or when the most recent information to measure fair value is insufficient, or if there is a broad range of possible fair value measurements and cost represents the best estimate of fair value within that range of values.

Financial assets at fair value through profit or loss

a) Financial assets at fair value through profit or loss – 31 December 2019 and 2018 (IFRS 9)

This category contains financial assets other than those classed as "Financial assets at fair value through other comprehensive income" or as "Financial assets at amortised cost". This item, in particular, includes only equity instruments held for purposes other than trading for which the Group has not opted for measurement at *fair value* through other comprehensive income, and bonds.

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

After initial recognition, these financial assets are measured at fair *value*. Any gains or losses resulting from the change in *fair value* are attributed to the consolidated income statement.

b) Financial assets at fair value through profit or loss and classified as such at 31 December 2017 (Assets held for trading under IAS 39)

A financial asset is classed as held for trading if:

- it was purchased primarily for the purpose of selling in the short term;
- it is part of a portfolio of specific jointly managed financial instruments with a strategy aimed at short-term profit-taking;
- it is a derivative (except for derivatives that are effective hedging instruments).

Held-for-trading financial assets are initially recognised at fair value, usually the transaction price, without considering directly attributable transaction costs.

After initial recognition, these financial assets are measured at fair *value*. Any gains or losses resulting from the change in *fair value* are attributed to the consolidated income statement.

Equity securities for which it is not possible to reliably determine the fair value are retained at cost.

Inventories

Inventories are assets:

- held for sale in the normal course of business;
- used in production processes for sale;
- in the form of materials or supplies of goods to be used in the production process or in the provision of services.

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

The cost of inventories includes all purchase costs, transformation costs and other costs incurred to bring inventories to their current location and condition, while it does not include exchange differences in the case of inventories invoiced in foreign currency. In accordance with the provisions of IAS 2, the weighted average cost method is used to determine the cost of inventories.

When the net realisable value is less than cost, the surplus is immediately written down in the income statement.

Cash and cash equivalents

Cash and cash equivalents are recorded, depending on their nature, at nominal value or amortised cost. Other cash equivalents represent short-term and highly liquid financial commitments that are readily convertible into known cash values and subject to a negligible risk of change in value, with an original maturity or a maturity at the time of purchase of not more than 3 months.

Payables

Payables pertaining to the years ended 31 December 2019 and 2018 (IFRS 9 as of 1 January 2018) and to the year ended 31 December 2017 (IAS 39 up to 31 December 2017)

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

Payables to banks and other lenders are initially stated at *their fair value*, net of directly attributable ancillary costs, and subsequently measured at amortised cost, applying the effective interest rate criterion. When there is a change in the estimate of expected cash flows, the value of liabilities is recalculated to reflect that change on the basis of the present value of the new expected cash flows and the internal effective rate initially determined. Payables to banks and other lenders are classified as current liabilities, unless the Group has an unconditional right to defer payment for at least twelve months after the reference date.

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

Employee benefits

These include benefits granted to employees or their dependants and can be liquidated by means of payments (or with the supply of goods and services) made directly to employees, spouses, children or other dependants or to third parties such as insurance companies, and are divided into short-term benefits, benefits due to employees for termination of employment and post-employment benefits.

Short-term benefits, which also include incentive programmes in the form of annual bonuses, MBOs and one-off renewals of national collective agreements, are accounted for as a liability (cost provision) after deducting any amount already paid, and as a cost, unless some other IFRS requires or permits the inclusion of benefits in the cost of an asset (for example, the cost of personnel employed in the development of internally generated intangible assets).

The category of benefits for termination of employment includes departure incentive plans arising in the event of voluntary resignation involving the participation of the employee or a group of employees in trade union agreements for the activation of so-called solidarity funds, and redundancy plans, which take place when the company unilaterally terminates the contract. The company recognises the cost of these benefits as a financial liability at the earliest of the time when the company is unable to withdraw the offer of these benefits and the time when the company recognises the costs of a restructuring that falls within the scope of IAS 37. Provisions for departures shall be reviewed at least every six months.

Post-employment benefit plans are broken down into two categories: defined contribution plans and defined benefit plans.

Defined contribution plans mainly include:

- supplementary pension funds involving a defined contribution by the company;
- the severance indemnity fund, limited to the shares accruing from 1 January 2007 for undertakings with more than 50 employees, irrespective of the destination chosen by the employee;
- employee severance indemnities accruing from 1 January 2007 and earmarked for supplementary pensions, in the case of undertakings with fewer than 50 employees;
- supplementary healthcare funds.

Defined benefit plans, on the other hand, include:

- the severance indemnity, limited to the amount accrued up to 31 December 2006 for all undertakings, as well as the amounts accrued since 1 January 2007 and not intended for supplementary pensions for undertakings with fewer than 50 employees;
- supplementary pension funds that provide for the payment of a defined benefit to members;
- long-service bonuses, which provide for an extraordinary payment to the employee upon reaching a certain level of working seniority.

In defined contribution plans, the obligation of the reporting company is determined on the basis of the contributions due for that year and therefore the measurement of the obligation does not require actuarial assumptions and there is no possibility of actuarial gains or losses.

The accounting for defined benefit plans is characterised by the use of actuarial assumptions to determine the value of the obligation. This valuation is entrusted to an external actuary and is carried out annually. For discounting purposes, the company uses the projected unit credit method, which projects future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. Actuarial gains and losses are recognised as a counter-entry in equity as required by IAS 19.

Provisions for risks and charges, and contingent assets and liabilities

Contingent assets and liabilities can be divided into several categories depending on their nature and their accounting impact. In particular:

- the provisions are actual obligations of an uncertain amount and occurrence/maturity which arise from past events and for which it is probable that there will be a financial outlay that can be reliably estimated in terms of amount;
- contingent liabilities are possible obligations with a distinct probability of having to make a financial outlay;
- remote liabilities are those for which a financial outlay is unlikely;
- potential assets are assets which are uncertain and cannot therefore be recognised in the financial statements;
- the onerous contract is a contract in which the non-discretionary costs necessary to fulfil the obligations assumed are greater than the economic benefits that are supposed to be obtainable from the contract;
- restructuring is a programme planned and controlled by the company's management that significantly changes the scope of an activity undertaken by the company or the way in which the activity is managed.

For the purpose of recognising the charge, provisions are recorded in cases where there is uncertainty about the maturity or the amount of the flow of resources necessary to fulfil the obligation or other liabilities and in particular trade payables or provisions for presumed payables.

Provisions differ from other liabilities in that there is no certainty as to their maturity or the amount of future expenditure required. Due to their different nature, provisions are shown separately from trade payables and provisions for presumed payables.

Liabilities or allocations to a provision are recognised when:

- there is a current legal or implied obligation resulting from past events;
- it is probable that resources designed to produce economic benefits will have to be used to settle the obligation;
- the obligation can be reliably estimated.

Provisions require the use of estimates. In extremely rare circumstances where a reliable estimate cannot be made, the liability is classed as a contingent liability.

The allocation to the provision for risks and charges is an amount that represents the best possible estimate of the expenditure needed to liquidate the relevant obligation outstanding on the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. The amount of the allocation reflects any future events that may affect the amount required to settle an obligation if there is sufficient objective evidence that they will occur.

Once the best possible estimate of the expense necessary to settle the related obligation outstanding on the reporting date has been determined, the current value of the provision is determined, in the event that the effect of the present value of money is a relevant aspect.

Revenue from contracts with customers

a) *Revenue from contracts with related customers - years ended 31 December 2019 and 2018 (IFRS 15)*

The Group applies IFRS 15 as of 1 January 2018. In accordance with this standard, revenue from contracts with customers is recognised when the following conditions are met:

- the contract with the customer has been identified;
- *performance obligations* set forth in the contract have been identified;
- the price has been determined;
- the price has been allocated to the individual performance obligations set forth in the contract;
- the performance obligation set forth in the contract has been met.

The Group recognises revenue from contracts with customers when (or as) it fulfils the performance obligation, transferring the promised good or service (or asset) to the customer. The asset is transferred when (or as) the customer acquires control over it.

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

- the customer simultaneously receives and uses the benefits arising from the entity's service as it is provided;
- the service of the Group creates or improves the asset (e.g. work in progress) that the customer controls as the asset is created or improved;
- the service of the Group does not create an asset which has an alternative use for the Group and the Group has the enforceable right to payment for the service completed up to the date in question.

If the performance obligation is not met over time, it is met at a specific moment. In that case, the Group recognises revenue when the customer acquires control over the promised asset.

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

Incremental costs for obtaining customer contracts are accounted for as assets and amortised throughout the term of the underlying contract, if the Group expects them to be recovered. Incremental costs for obtaining the contract are costs that the Group incurs to obtain the contract with the customer and which it would not have incurred if it had not obtained the contract. The costs for obtaining the contract which would have been incurred even if the contract had not been obtained should be recognised as a cost at the moment they are incurred, unless they are explicitly chargeable to the customer even if the contract is not obtained.

b) Revenue from contracts with customers - year ended 31 December 2017 (IAS 18)

As per the provisions of IAS 18 - "Revenues", applied for the year ended 31 December 2017, revenues are measured based on the fee received, net of rebates, discounts and promotions.

Revenues from the sale of goods are recognised once the business has transferred to the buyer the significant risks and benefits of ownership, which normally happens upon delivery of the product.

Recognition of costs

Costs are recognised in the income statement according to the accruals principle.

Dividends

Dividends received are recognised in the income statement according to the accruals principle, i.e. in the year in which the related right to receive them emerges, following the shareholders' resolution to distribute dividends from the investee company.

Distributed dividends are shown as changes in equity in the year in which they are approved by the Shareholders' Meeting.

Income taxes

Current taxes are calculated based on the taxable income for the year, applying the tax rates in force at the date of the financial statements. Current taxes for the year and for prior years, where unpaid, are recognised as liabilities. Current tax assets and liabilities, for the current year and for prior years, must be determined at the value expected to be recovered from or paid to, respectively, the tax authorities, applying the tax rates and legislation that is in force or imminent at the reporting date.

Deferred taxes can be divided into:

- deferred tax liabilities, which are the amounts of income taxes payable in future years relating to taxable temporary differences;

- deferred tax assets, which are the amounts of income taxes recoverable in future years relating to deductible temporary differences, carry-over of unused tax losses, carry-over of unused tax credits.

To calculate the amount of deferred tax assets and liabilities, the tax rate is applied to the temporary taxable or deductible differences identified, or to unused tax losses and unused tax credits.

At each reporting date, recognised and unrecognised deferred tax assets are revalued to check whether they are likely to be recovered.

Net profit/(loss) per share

Basic earnings per share are calculated by dividing the net profit (loss) pertaining to the Group by the weighted average number of ordinary shares in circulation during the year, excluding treasury shares.

Diluted earnings per share are calculated by dividing the profit (loss) pertaining to the Group by the weighted average number of ordinary shares in circulation during the year, excluding treasury shares. To calculate the diluted earnings per share, the weighted average number of shares in circulation is modified assuming that all assignees exercise rights with a potentially dilutive effect, while the profit (loss) pertaining to the Group is adjusted to take into account any effects, net of taxes, of the exercise of such rights.

Operating segments

The operating segment is a part of the group that undertakes business activities that generate revenue and costs, whose operating results are periodically reviewed by the Chairman of the Board of Directors, in his role as *Chief Operating Decision Maker* (CODM), for the purpose of taking decisions on the resources to be allocated to the sector and evaluating results, and for which financial information is available.

2.5 Recently issued accounting standards

Accounting standards not yet applicable, as they have not been endorsed by the European Union

At the date of preparing these Financial Statements, the competent bodies of the European Union have not yet concluded the endorsement process required for the adoption of the following accounting standards and amendments:

Accounting standard/amendment	Endorsed by the EU	Effective date
IFRS 17 Insurance Contracts	NO	1 January 2021 (possible extension to 1 January 2022)
Amendment to IFRS 3 Business Combinations	NO	1 January 2020
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020)	NO	N.A.

Accounting standards, amendments and interpretations endorsed by the EU but not yet adopted by the Company

At the date of preparing these Financial Statements, the competent bodies of the European Union have endorsed the adoption of the following accounting standards and amendments, but they are yet to be adopted by the Company:

Accounting standard/amendment	Description	Effective date
Amendments to IAS 1 and IAS 8: Definition of Material	These amendments, in addition to clarifying the concept of materiality, focus on ensuring that the definition of material is consistent across the various accounting standards, and incorporate the guidelines included in IAS 1 on immaterial information.	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	These amendments focus on updating certain definitions and references in the various standards and their interpretations.	1 January 2020
Amendments to IFRS 9, IAS 39, IFRS 7 (Interest Rate Benchmark Reform)	These changes focus on hedge accounting in order to clarify the potential effects arising from the uncertainty caused by the "Interest Rate Benchmark Reform". They also require companies to provide further information to investors about their hedging relationships that are directly affected by these uncertainties.	1 January 2020

Impacts of adopting IFRS 16, IFRS 15 and IFRS 9

This note describes how adopting IFRS 16 - "*Leases*", IFRS 15 - "*Revenues from Contracts with Customers*" and IFRS 9 - "*Financial Instruments*" has impacted the Combined Consolidated Financial Statements.

For the purpose of preparing the Combined Consolidated Financial Statements, the Group chose early adoption, from 1 January 2018, of IFRS 16, which came into effect on 1 January 2019, applying the modified retrospective approach.

The Group adopted IFRS 15 from 1 January 2018, applying the modified retrospective approach to all contracts in force on the date of first adoption.

The Group adopted IFRS 9 from 1 January 2018, without restating the comparative data.

To enable better comparability of the data, the layout of the statement of financial position applied in 2018 to take on board the changes introduced by IFRS 9 and IFRS 16 has been adopted retrospectively.

IFRS 16 - "Leases"

IFRS 16 replaced IAS 17 as well as the IFRIC 4 - "*Determining whether an Arrangement contains a Lease*", SIC 15 - "*Operating Leases Incentives*" and SIC27 - "*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*" interpretations. It provides a new definition of leasing and introduces a criteria based on the control (right of use) of an asset to distinguish lease contracts from service contracts, with the distinguishing factors being the identification of the asset, the option to replace the asset, the right to obtain substantially all the economic benefits deriving from the use of the asset and, finally, the right to control the use of the underlying asset.

For the lessee, the standard establishes a single lease contract recognition and measurement model that provides for recognising the leased asset (including those under an operating lease) on the asset side of the statement of financial position with a financial debt counter-entry, at an amount equal to the present value of future lease payments. The standard does not, however, contain significant changes for lessors.

Endorsed by the European Union, this standard took effect on 1 January 2019. The Group chose early adoption of this accounting standard from 1 January 2018, applying the modified retrospective approach.

The table below shows the impact of adopting IFRS 16 at 1 January 2018:

(in thousands of Euro)	**At 01 January 2018**
Right-of-use assets	22,480
Current lease liabilities	5,151
Non-current lease liabilities	17,329

The table below also reconciles operating lease commitments at 31 December 2017 and lease liabilities resulting from the adoption of IFRS 16 at 1 January 2018:

(in thousands of Euro)	
Commitments for operating leases at 31 December 2017	**24,887**
Discounting effect	(1,437)
Effect of exercising extension options	-
Contracts with residual life of less than 12 months	(88)
Contracts relating to low-unit-value assets	(882)
Lease liabilities at 1 January 2018	**22,480**

When first adopting IFRS 16, the Group decided to assess whether a contract contains a lease by applying to said contract paragraphs 9 - 11 of IFRS 16 based on the facts and circumstances at that time. A contract is, or contains, a lease if, in exchange for consideration, it conveys the right to control the use of a specified asset for a period of time.

When first adopting IFRS 16, and in compliance with its transitional provisions, the Group decided to make the following choices:

a) to value the lease liabilities as at the date of first-time adoption of IFRS at the present value of the outstanding lease payments owed, discounted using the Group's incremental borrowing rate as at the date of first-time adoption of IFRS 16 (IFRS 16, App. C, par. C8);

b) to value right-of-use assets as at the date of first-time adoption of IFRS 16 at an amount equal to the lease liabilities, adjusted for any deferred or accrued income pertaining to the lease recorded in the statement of financial position immediately prior to the date of first-time adoption of IFRS 16 (IFRS 16, App. C, par. C8);

c) not to make temporary adjustments to leases with a low-value underlying asset (IFRS 16, App. C, par. C9);

d) to recognise leases expiring within 12 months of first adopting IFRS as short-term leases, recording outstanding payments as costs for the year that includes the date of first-time adoption of IFRS 16 (IFRS 16, App. C, par. C10);

e) to apply a single discount rate to a lease portfolio with reasonably similar characteristics, such as, for example, leases with a similar residual maturity for a similar underlying asset class, in a similar economic climate (IFRS 16, App. C, par. C10).

IFRS 15 - "Revenue from Contracts with Customers"

IFRS 15 replaced all the previous standards and interpretations regarding revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). It applies to all revenues from contracts with customers, unless such contracts fall under the scope of application of other accounting standards.

IFRS 15 requires entities to recognise their revenues from the transfer of goods or services promised to clients in an amount that reflects the fee to which the company expects to be entitled in exchange for said goods and services.

The standard requires the Group to use its judgement when considering all the relevant facts and circumstances for applying each phase of the model to contracts with its own customers; it also specifies how to recognise the incremental costs of obtaining a contract and those directly associated with fulfilling said contract.

IFRS 15, which took effect on 1 January 2018, makes provision for the modified retrospective approach. The Group chose to apply this approach and therefore not to restate comparative information. The Group also decided against adopting IFRS 15 early and therefore to adopt it as of 1 January 2018.

The Group assessed the impacts of adopting IFRS 15. Given the nature of the Group's business, these impacts are not material. In particular, applying IFRS 15 to customer contracts where the sole obligation is the sale of goods has not had a significant impact on the Group. The Group recognises the revenues when control of the asset is transferred to the customer, which is generally upon delivery, as per the previously applicable standards. Adopting IFRS 15 has therefore not affected revenue recognition times.

In compliance with IFRS 15, the Group estimates a variable fee on the contract date, recognising it when control of the asset is transferred and thus the right to receive the fee is triggered, until the uncertainty is removed. Given the immaterial amount and the nature of the variable fee within the current portfolio of contracts with its main customers, adopting the new standard has not had a substantial impact on the Group.

IFRS 9 - "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9 - "Financial Instruments", which replaced IAS 39 - "Financial Instruments: Recognition and Measurement" and all the previous versions of IFRS 9. IFRS 9 brings together all three financial instrument accounting aspects: classification and measurement, impairment and hedge accounting.

IFRS 9 took effect on 1 January 2018, with the possibility for early adoption. With the exception of hedge accounting, the standard requires retrospective adoption. The Group adopted the new standard as of 1 January 2018.

Applying the new classification and measurement criteria introduced by IFRS 9 had no material impact on the consolidated statement of financial position. Based on the assessment of the applicable business model and the contractual terms of the cash flows associated with the assets, financial assets have been classified in the categories set out in IFRS 9. In particular: (i) equity investments, measured at cost at 31 December 2017 under IAS 39, have been classified among non-current financial assets at fair value through profit or loss since 1 January 2018; (ii) security deposits have been classified among financial assets at amortised cost; and (iii) securities and equity investments held for sale have been classified among current financial assets at fair value through profit or loss.

With regard to writing down financial assets, the amount recognised under the new standard is not materially different from the one previously recorded. The Group analysed the impact of IFRS 9's new impairment model based on expected losses pertaining to trade and financial receivables. For trade receivables, the Group applied the simplified approach permitted under the standard, thereby calculating expected losses throughout the life of the receivables. The Group used a matrix based on historical experience and linked to the ageing of these receivables, adjusted to take into account specific foreseeable factors relating to certain debtors and to the economic environment. There were no impacts on the Group's equity at the date of transition owing to the application of the new trade receivables impairment model.

3 ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the directors to apply accounting standards and methods that are sometimes based on difficult and subjective assessments and estimates derived from past experience and based on assumptions that are considered reasonable and realistic given the circumstances.

Applying these estimates and assumptions affects the amounts presented in the Statement of Financial Position, the Income Statement, the Statement of Other Comprehensive Income and the Statement of Cash Flows, and in other information provided. The amounts of the financial statement items for which the aforementioned estimates and assumptions have been used may differ, even significantly, from those reported in the financial statements that highlight the effects of the occurrence of the event being estimated, due to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

The following areas require the directors to be most subjective when producing the estimates and would significantly affect the Group's results if there were a change in the conditions underlying the assumptions used:

a) <u>Impairment of property, plant and equipment and intangible assets with a finite useful life</u>: property, plant and equipment and intangible assets with a finite useful life are subject to testing in order to ascertain whether impairment has occurred when indicators exist that predict difficulties in recovering the corresponding net book value through use. Checking for the existence of the aforementioned indicators requires directors to make subjective valuations based on the information available from both internal and external sources, as well as on historical experience. In addition, if it is determined that impairment may have occurred, the Group calculates said impairment using what are deemed to be suitable valuation techniques. Correctly identifying impairment indicators, as well as the estimates for their calculation, depends on subjective valuations and factors that can vary over time, influencing the valuations and estimates made by *management*.

b) Impairment of intangible assets with an indefinite useful life (goodwill): the value of goodwill is verified annually in order to check for any impairment that should be recognised in the income statement. In particular, the test in question involves allocating goodwill to cash generating units and then calculating the relative recoverable value, understood as the greater of *fair value* and value in use. If the recoverable value is less than the book value of the cash generating units, the goodwill allocated to them is written down.

c) Impairment of intangible assets with an indefinite useful life (trademarks): the value of trademarks with an indefinite useful life is subject to an annual *impairment* test. The value in use is determined *using the discounted cash flow (DCF) method, based on a discount* rate and an explicit forecast period of 3 years in accordance with the budgets approved by the Group. After the explicit forecast period, the specific growth rate used is equal to the expected long-term inflation rate. The forecast values for future years and the parameters determined with reference to current market information are subject to uncertainties due to unpredictable future legal developments and possible developments in the pasta market; therefore, write-downs may be necessary in subsequent years.

d) Provision for bad debts: the determination of this provision reflects *management* estimates related to the historical and expected solvency of the bad debts in question.

e) Provisions for risks and charges: it is sometimes hard to determine whether or not a current obligation (legal or implied) exists. The directors assess such phenomena on a case by case basis, together with an estimate of the amount of the economic resources required in order to meet that obligation. When the directors believe it to be merely possible that liabilities may arise, the risks are indicated in the appropriate information section on commitments and risks, without resulting any allocation being made.

f) Useful life of property, plant and equipment and intangible assets: useful life is determined when the asset is recorded in the financial statements. Useful life is measured based on historical experience, market conditions and expectations of future events that could affect useful life, including technological changes. As a result, the effective useful life may differ from the estimated useful life.

g) Prepaid tax assets: prepaid tax assets are recognised to the extent that it is probable that there will be sufficient future tax gains against which temporary differences or any tax losses may be used.

h) <u>Inventories:</u> Closing inventories of obsolete or slow-to-move products are periodically subjected to valuation tests and are written down where their recoverable value is less than their book value. The write-downs carried out are based on assumptions and estimates of the directors based on their experience and the historical results achieved.

i) <u>*Lease* liabilities</u>: the amount of *the lease* liability and consequently of the related right-of-use assets depends on the determination of *the lease term*. This determination is subject to *management* assessments, with particular reference to the inclusion or otherwise of the periods covered by the lease renewal and termination options provided for in the lease agreements. These assessments will be reviewed upon the occurrence of a significant event or significant change in circumstances that has an impact on *management*'s reasonable certainty of exercising an option not previously considered in determining *the lease term* or not exercising an option previously considered in determining *the lease term*.

4 MANAGEMENT OF FINANCIAL RISKS

The main business risks identified, monitored and, as specified below, actively managed by the Group are as follows:

- market risk, arising from the fluctuation of interest rates and of exchange rates between the euro and the other currencies in which the Group operates;
- credit risk, arising from the possibility of counterparty default;
- liquidity risk, arising from a lack of financial resources to meet commitments.

The Group's objective is to manage its financial exposure over time so that liabilities are balanced with assets on the statement of financial position and that the necessary operational flexibility is in place by using bank loans and the cash generated by current operating activities.

The ability to generate liquidity from core operations, together with the ability to borrow, allows the Group to adequately meet its operational, working capital financing and investment needs, as well as to comply with its financial obligations. The Group's financial policy and the management of the related financial risks are centrally guided and monitored. In particular, the central finance function is responsible for assessing and approving forecast financial requirements, monitoring performance and taking corrective action where necessary.

4.1 Market risk

Exchange risk

Exposure to the risk of exchange rate fluctuations derives from the Group's commercial activities conducted in currencies other than the euro. Revenues and costs denominated in foreign currency can be influenced by fluctuations in the exchange rate, bringing about an impact on trade margins (economic risk), and trade and financial payables and receivables denominated in foreign currency can be impacted by the conversion rates used, with a knock-on effect on the profit or loss (transaction risk). Finally, fluctuations in exchange rates are also reflected in consolidated results and equity.

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

- Euro/USD, in relation to transactions carried out in US dollars;
- Euro/GBP, in relation to transactions carried out in pound sterling.

The Group does not adopt specific policies to hedge exchange rate fluctuations because management does not believe that this risk can significantly harm the Group's results, since the amount of inflows and outflows of foreign currency is not only insignificant, but also fairly similar in terms of volumes and timing.

A hypothetical positive or negative change of 100 bps in the exchange rates relating to the currencies in which the Group operates would not have a significant impact on the net result and shareholders' equity of the years under review.

Interest rate risk

The Group uses external financial resources in the form of debt and uses the liquidity available in market instruments. Changes in interest rate levels affect the cost and return of the various forms of funding and use, thus affecting consolidated net financial expense. Exposure to interest rate risk is constantly monitored according to the trend of the Euribor curve, in order to assess possible interventions to contain the risk of a potential rise in market interest rates. At the reference dates, there were no hedges carried out by trading in derivatives.

With reference to interest rate risk, a sensitivity analysis was carried out to determine the effect on the consolidated income statement and consolidated shareholders' equity that would result from a hypothetical positive and negative change of 50 bps in interest rates compared with those actually recorded in each period. The analysis was carried out mainly with regard to the following items: (i) cash and cash equivalents and (ii) short- and medium-/long-term financial liabilities. With regard to cash and cash equivalents, reference was made to the average inventory and the average rate of return for the period, while for short- and medium-/long-term financial liabilities, the precise impact was calculated.

The table below shows the results of the analysis carried out:

(in thousands of Euro)	**Impact on profit net tax**		**Impact on shareholders' equity net of tax**	
	- 50 bps	+ 50 bps	- 50 bps	+ 50 bps
Year ended 31 December 2019	(62)	62	(62)	62
Year ended 31 December 2018	(71)	71	(71)	71
Period ended 31 December 2017	(40)	40	(40)	40

4.2 Credit risk

The Group is exposed to the credit risk inherent in the possibility of its customers becoming insolvent and/or less creditworthy so it monitors the situation continually.

Credit risk derives essentially from the Group's commercial activity, where its counterparties are mass and retail distribution operators. Retail receivables are extremely fragmented, while the mass distribution segment is characterised by a larger exposure to a single client.

The Group manages the credit risk of both types of customers through a consolidated practice, which provides for targeted and prudent management with a credit limit granted on the basis of commercial, financial and perceived market risk information.

The Group operates in *business* areas with low levels of credit risk, given the nature of its activities and the fact that its credit exposure is spread over a large number of customers. Assets are recognised net of any write-downs determined on the basis of counterparties' default risk, taking into account available solvency information and historical and prospective data.

Positions are regularly monitored for compliance with payment terms and overdue reminder actions are conducted in coordination with the sales force. If, on the other hand, a spot analysis of the individual case reveals an objective condition of partial or total bad debt, the amount of the write-down takes into account an estimate of recoverable flows. The credit management methodology means it is not deemed important to divide customer exposure into different risk classes.

Moreover, the Group has credit insurance policies with leading companies in the sector in order to mitigate the risk associated with the solvency of customers.

The credit risk deriving from receivables that the Group has with banks is, on the other hand, moderate and derives substantially from temporary surplus liquidity stocks usually invested in bank deposits and current accounts.

The following table provides a breakdown of trade receivables at 31 December 2019, 2018 and 2017 grouped by maturity, net of the provision for bad debts:

(in thousands of Euro)	**Not overdue**	**1-90 days overdue**	**91-180 days overdue**	**More than 181 days overdue**	**Total**
Gross trade receivables at 31 December 2019	36,662	8,839	2,943	16,250	**64,694**
Provision for bad debts	-	(238)	(222)	(14,960)	**(15,420)**
Net trade receivables at 31 December 2019	**36,662**	**8,601**	**2,721**	**1,290**	**49,274**
Gross trade receivables at 31 December 2018	39,071	12,964	983	15,550	**68,568**
Provision for bad debts	-	(118)	(41)	(14,540)	**(14,699)**
Net trade receivables at 31 December 2018	**39,071**	**12,846**	**942**	**1,010**	**53,869**
Gross trade receivables at 31 December 2017	42,360	9,477	492	15,898	**68,227**
Provision for bad debts	-	-	(25)	(13,772)	**(13,797)**
Net trade receivables at 31 December 2017	**42,360**	**9,477**	**467**	**2,126**	**54,430**

4.3 Liquidity risk

Liquidity risk is the risk that, due to the inability to find new funds or to liquidate assets on the market, the Group will not be able to meet its payment obligations, resulting in a negative impact on results if it is forced to incur additional costs to meet its obligations or an insolvency situation.

The liquidity risk to which the Group may be subject comprises the failure to find sufficient financial resources for its operations, as well as for the development of its industrial and commercial activities. The two main factors that determine the Group's liquidity situation are the resources generated or absorbed by operating and investment activities, and the maturity and renewal status of payables or the liquidity of financial commitments and market conditions. In particular, the main factor affecting the Group's liquidity is the resources absorbed by operating activities: the sector in which the Group operates has seasonal sales phenomena, with peak liquidity requirements in the third quarter caused by a higher volume of trade receivables compared with the rest of the year. The Group’s commercial and finance teams work together to manage the changing liquidity requirements, which involves carefully planning financial requirements related to sales, drafting the budget at the beginning of the year and carefully monitoring requirements throughout the year.

Since they are also subject to seasonal phenomena, liquidity requirements linked to inventory dynamics are subject to analysis as well: planning purchases of raw materials for the inventory is managed in accordance with established practices, with the Chairman involved in decisions that could have an impact on the Group's financial equilibrium.

Based on established practices inspired by prudence and stakeholder protection, the Group's financing activity involves negotiating credit lines with the banking system and continually monitoring the Group's cash flows.

Moreover, the Group's companies have specific cash pooling contracts with the sole shareholder Newlat Group aiming to optimise management of financial resources and the related requirements.

At 31 December 2019, 2018 and 2017, the Group had, in addition to cash and cash equivalents and current financial assets of €100,884 thousand, €61,790 thousand and €72,340 thousand respectively, unused credit lines of €30,925 thousand, €1,176 thousand and €2,561 thousand respectively.

The following table shows, by contractual maturity bands, the Group's financial requirements at 31 December 2019, 2018 and 2017, expressed according to the following assumptions:

(i) cash flows are not discounted;

(ii) cash flows are allocated to time bands on the basis of the first due date provided for in the contractual terms;

(iii) all instruments held on the reporting date for which payments have already been contractually designated are included. Future commitments planned but not yet recognised are not included;

(iv) when the amount payable is not fixed (e.g. future interest repayments), the financial liability is measured at market conditions at *the reporting* date; and

(v) cash flows also include the interest that the Group will pay until the maturity of the debt at the reporting date.

	At 31 December 2019					
(in thousands of Euro)	**less than 1 year**	**between 1 and 2 years**	**between 3 and 5 years**	**over 5 years**	**Contract value**	**Book value**
Financial liabilities	22,553	3,077	9,103		**34,733**	**34,456**
Other non-current liabilities	-	600	-		**600**	**600**
Lease liabilities	5,449	4,425	7,287	2,093	**19,254**	**17,809**
Trade payables	85,592	-	-	-	**85,592**	**85,592**
Other current liabilities	15,379	-	-	-	**15,379**	**15,379**

	At 31 December 2018					
(in thousands of Euro)	**less than 1 year**	**between 1 and 2 years**	**between 3 and 5 years**	**over 5 years**	**Contract value**	**Book value**
Financial liabilities	27,251	1,805	-	-	**29,056**	**28,941**
Other non-current liabilities	-	2,521	600	-	**3,121**	**3,121**
Lease liabilities	5,481	4,458	9,549	711	**20,199**	**19,197**
Trade payables	92,221	-	-	-	**92,221**	**92,221**
Other current liabilities	13,492	-	-	-	**13,492**	**13,492**

(in thousands of Euro)	At 31 December 2017					
	less than 1 year	**between 1 and 2 years**	**between 3 and 5 years**	**over 5 years**	**Contract value**	**Book value**
Financial liabilities	25,873	2,789	10,805	-	**39,467**	**39,186**
Other non-current liabilities	-	1,498	2,521	600	**4,619**	**4,619**
Trade payables	91,160	-	-	-	**91,160**	**91,160**
Other current liabilities	14,381	-	-	-	**14,381**	**14,381**
Commitments for operating *leases*	1,931	5,572	12,503	4,881	**24,887**	**-**

At 31 December 2019 and 2018, the amount of operating *lease* commitments is reflected in *lease* liabilities following the application of IFRS 16 as of 1 January 2018.

5 CAPITAL MANAGEMENT POLICY

The Group's capital management is aimed at ensuring a solid credit *rating* and adequate levels of capital indicators to support investment plans, in compliance with contractual commitments made with lenders.

The Group provides itself with the capital necessary to finance *the needs of business* development and operations; the sources of financing are divided into a mix of risk capital and debt capital, to ensure a balanced financial structure and the minimisation of the total cost of capital, thereby benefiting all *stakeholders*.

The remuneration of risk capital is monitored on the basis of market trends and business performance, once all other obligations have been fulfilled, including debt servicing; therefore, in order to ensure an adequate return on capital, the safeguarding of business continuity and business development, the Group continually monitors the level of debt in relation to equity, business performance and expected cash flow forecasts, in the short and medium/long term.

6 FINANCIAL ASSET AND LIABILITY CATEGORIES AND INFORMATION ON FAIR VALUE

Categories of financial assets and liabilities

The following tables provide a breakdown of financial assets and liabilities by category at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Book value at 31 December**		
	2019	**2018**	**2017**
FINANCIAL ASSETS:			
Financial assets at amortised cost:			
Financial assets measured at amortised cost	866	858	975
Trade receivables	49,274	53,869	54,430
Other receivables and current assets	3,770	13,593	21,347
Cash and cash equivalents	100,884	61,786	72,060
	154,795	**130,106**	**148,812**
Financial assets at fair value through profit or loss:			
Non-current financial assets measured at fair value through profit or loss	42	32	32
Current financial assets measured at fair value through profit or loss	4	4	280
	46	**36**	**312**
TOTAL FINANCIAL ASSETS	**154,841**	**130,142**	**149,124**

(in thousands of Euro)	**Book value at 31 December**		
	2019	**2018**	**2017**
FINANCIAL LIABILITIES:			
Financial liabilities at amortised cost:			
Non-current financial liabilities	12,000	1,778	13,478
Non-current lease liabilities	13,032	14,110	-
Other non-current liabilities	600	3,121	4,619
Trade payables	85,592	92,221	91,160
Current financial liabilities	22,456	27,163	25,708
Current lease liabilities	4,776	5,087	-
Other current liabilities	15,379	13,492	14,381
TOTAL FINANCIAL LIABILITIES	**153,836**	**156,972**	**149,346**

The tables above show that most of the outstanding financial assets and liabilities are short-term items. In view of their nature, for most items, the book value is considered a reasonable approximation of *the fair value*. Non-current financial assets and liabilities are settled or valued at market rates and it is therefore considered that their *fair value* is substantially in line with current book values.

Information on fair value

In relation to assets and liabilities recognised in the statement of financial position and measured at *fair value*, IFRS 13 requires that these values be classified on the basis of a hierarchy of levels, reflecting the significance of the inputs used in determining *fair value*. The *following table shows the fair value* classification of financial instruments based on the following hierarchical levels:

- **Level 1**: *fair value* determined using unadjusted prices listed on active markets for identical financial instruments. Therefore, in Level 1 the emphasis is on determining the following elements: (a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; (b) the entity's ability to transact the asset or liability at the price of that market on the valuation date.

- **Level 2**: *fair value* determined with valuation techniques using variables observable on active markets. The inputs for this level include: (a) prices listed for similar assets or liabilities in active markets; (b) prices listed for identical or similar assets or liabilities in non-active markets; (c) data other than observable listed prices for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals, implicit volatility, credit spreads, input corroborated by the market.

- **Level 3**: *fair value* determined with valuation techniques using non-observable market variables.

The following tables summarise the financial assets and liabilities measured at *fair value*, broken down by hierarchy, at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**At 31 December 2019**		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets measured at fair value through profit or loss	-	-	42
Current financial assets measured at fair value through profit or loss	-	-	4
Total financial assets measured at fair value	**-**	**-**	**46**

(in thousands of Euro)	**At 31 December 2018**		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets measured at fair value through profit or loss	-	-	32
Current financial assets measured at fair value through profit or loss	-	-	4
Total financial assets measured at fair value	**-**	**-**	**36**

(in thousands of Euro)	At 31 December 2017		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets measured at fair value through profit or loss	-	-	32
Current financial assets measured at fair value through profit or loss	-	-	280
Total financial assets measured at fair value	**-**	**-**	**312**

There were no transfers between the different levels of *the fair value* hierarchy in the periods considered.

7 OPERATING SEGMENTS

IFRS 8 - *Operating Segments* defines an operating segment as a component:

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

For the purposes of IFRS 8, the Group's activity is identifiable in the following business segments: Pasta, Milk Products, Bakery Products, Dairy Products, Special Products and Other Activities.

The table below shows the main statement of financial position and income statement items examined by the chief operating decision maker in order to assess the Group'*s performance* at and for the year ended 31 December 2019, and the reconciliation of these items with respect to the corresponding amount included in the Combined Consolidated Financial Statements:

	At and for the year ended 31 December 2019						
(In thousands of Euro)	Pasta	*Milk Products*	*Bakery Products*	*Dairy Products*	*Special Products*	Other assets	**Combined Consolidated Financial Statements total**
Revenue from contracts with customers (third parties)	133,267	70,216	35,670	33,271	30,547	17,931	**320,902**
EBITDA (*)	9,000	5,453	5,815	4,030	3,408	619	**28,325**
EBITDA margin	6.75%	7.77%	16.30%	12.11%	11.16%	3.45%	**8.83%**
Amortisation, depreciation and write-downs	5,652	3,381	1,011	466	2,110	472	**13,092**
Net write-downs of financial assets	-	-	-	-	-	674	**674**
Operating profit/(loss)	**3,348**	**2,073**	**4,804**	**3,564**	**1,298**	**-527**	**14,559**
Total assets	117,567	39,374	12,753	9,373	18,896	63,781	**261,743**
Total liabilities	77,657	28,149	14,266	16,477	10,518	23,129	**170,198**
Investments	2,943	644	1,042	122	229	287	**5,267**
Employees (number)	527	166	132	62	148	52	**1,087**

(*) EBITDA is calculated as the absolute sum of the operating result, net write-downs of financial assets and depreciation/amortisation and write-downs.

The table below shows the main statement of financial position and income statement items examined by the chief operating decision maker in order to assess the Group'*s performance* at and for the year ended 31 December 2018, and the reconciliation of these items with respect to the corresponding amount included in the Combined Consolidated Financial Statements:

	At and for the year ended 31 December 2018						
(In thousands of Euro)	Pasta	Milk Products	Bakery Products	Dairy Products	Special Products	Other assets	**Combined Consolidated Financial Statements total**
Revenue from contracts with customers	122,689	71,050	35,352	30,190	28,448	18,101	**305,830**
EBITDA (*)	8,621	4,132	4,882	3,296	2,628	669	**24,228**
EBITDA margin	7.0%	5.8%	13.8%	10.9%	9.2%	3.7%	**7.9%**
Amortisation, depreciation and write-downs	5,377	3,738	1,246	674	2,135	391	**13,561**
Net write-downs of financial assets	-	-	-	-	-	937	**937**
Operating profit/(loss)	**3,244**	**394**	**3,636**	**2,622**	**493**	**(659)**	**9,730**
Total assets	90,761	39,519	13,029	9,529	20,522	63,458	**236,818**
Total liabilities	59,416	39,204	9,361	13,287	11,932	40,078	**173,278**
Investments	1,214	646	1,079	77	2,405	372	**5,793**
Employees (number)	463	191	132	60	145	34	**1,025**

(*) EBITDA is calculated as the absolute sum of the operating result, net write-downs of financial assets and depreciation/amortisation and write-downs.

The table below shows the main statement of financial position and income statement items examined by the chief operating decision maker in order to assess the Group's performance at and for the year ended 31 December 2017, and the reconciliation of these items with respect to the corresponding amount included in the Combined Consolidated Financial Statements:

	At and for the year ended 31 December 2017						
(In thousands of Euro)	Pasta	Milk Products	Bakery Products	Dairy Products	Special Products	Other assets	**Combined Consolidated Financial Statements total**
Revenue from contracts with customers	121,864	69,651	34,393	28,609	28,869	19,698	**303,084**
EBITDA (*)	6,962	3,354	4,572	1,304	2,440	885	**19,517**
EBITDA margin	5.7%	4.8%	13.3%	4.6%	8.5%	4.5%	**6.4%**
Amortisation, depreciation and write-downs	3,803	2,372	743	344	1,568	562	**9,392**
Net write-downs of financial assets	-	-	-	-	-	928	**928**
Operating profit/(loss)	**3,159**	**982**	**3,829**	**960**	**872**	**(605)**	**9,197**
Total assets	96,546	61,051	11,461	8,639	18,164	46,209	**242,070**
Total liabilities	64,893	38,182	9,153	12,976	19,441	29,979	**174,624**
Investments	3,270	599	484	169	776	430	**5,728**
Employees (number)	468	190	132	54	151	36	**1,031**

(*) EBITDA is calculated as the absolute sum of the operating result, net write-downs of financial assets and depreciation/amortisation and write-downs.

During the three years under review, revenue from contracts with customers in the “Pasta” and “Milk Products” segments totalled €203,483 thousand, €193,739 thousand and €191,515 thousand respectively for the years ended 31 December 2019, 2018 and 2017, equal to 63.4%, 63.2% and 63.2% respectively of all revenue from contracts with customers. EBITDA in the “Pasta” and “Milk Products” segments totalled €14,453 thousand, €12,753 thousand and €10,316 thousand respectively for the years ended 31 December 2019, 2018 and 2017, equal to 51.0%, 52.6% and 52.9% respectively of total EBITDA. The biggest EBITDA margin across the three years under review was delivered by the “Bakery Products” segment.

In particular, revenues from the "Pasta" sector increased by €10,578 thousand from €122,689 thousand in the year ended 31 December 2018 to €133,267 thousand in the year ended 31 December 2019, due mainly to the acquisition of Delverde. EBITDA from the "Pasta" sector increased by €379 thousand from €8,621 thousand in the year ended 31 December 2018 to €9,000 thousand in the year ended 31 December 2019. The related EBITDA *margin* remained steady during the period under review, dipping from 7% in the year ended 31 December 2018 to 6.75% in the year ended 31 December 2019.

Revenues from the "Milk Products" sector decreased by €834 thousand from €71,050 thousand in the year ended 31 December 2018 to €70,216 thousand in the year ended 31 December 2019. This decrease was due mainly to lower average sales prices to customers as a result of a better procurement policy. EBITDA from the "Milk Products" sector increased by €1,321 thousand from €4,132 thousand in the year ended 31 December 2018 to €5,453 thousand in the year ended 31 December 2019. Consequently, the related EBITDA margin increased by 2 percentage points, from 5.6% in the year ended 31 December 2018 to 7.8% in the year ended 31 December 2019.

Revenues from the "Pasta" sector increased by €825 thousand from €121,864 thousand in the year ended 31 December 2017 to €122,689 thousand in the year ended 31 December 2018. EBITDA from the "Pasta" sector increased by €1,659 thousand from €6,962 thousand in the year ended 31 December 2017 to €8,621 thousand in the year ended 31 December 2018. Consequently, the related EBITDA margin increased by 1 percentage point, from 6% in the year ended 31 December 2017 to 7% in the year ended 31 December 2018. Net of the effects of adopting IFRS 16, EBITDA in the Pasta segment was in line with the previous year.

Revenues from the "Milk Products" sector increased by €1,399 thousand from €69,651 thousand in the year ended 31 December 2017 to €71,050 thousand in the year ended 31 December 2018. This increase was due mainly to higher sales volumes of these products thanks to the strategy, undertaken during the previous year, of not passing on all of the higher raw material costs to customers in order to increase brand loyalty. EBITDA from the "Milk Products" sector increased by €778 thousand from €3,354 thousand in the year ended 31 December 2017 to €4,132 thousand in the year ended 31 December 2018. Consequently, the related EBITDA margin increased by 1 percentage point, from 5% in the year ended 31 December 2017 to 6% in the year ended 31 December 2018. Net of the effects of adopting IFRS 16, EBITDA in the Milk Products segment dropped slightly compared with the previous year, mainly because of lower sales volumes, which were partially offset by the positive effect of the pricing policy and product mix applied during the period, as well as a small reduction in raw materials costs.

In addition to the sectoral information, the statement of financial position and income statement data by geographical area, as required by IFRS 8, is provided below.

The following table displays revenue from contracts with customers by geographical area for the years ended 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Year ended 31 December**		
	2019	**2018**	**2017**
Italy	173,643	163,581	156,719
Germany	93,294	89,865	91,270
Other countries	53,966	52,384	55,095
Total revenue from contracts with customers	**320,902**	**305,830**	**303,084**

The following table provides a breakdown of non-current assets, excluding financial assets and prepaid tax assets, by geographical area at 31 December 2019, 2018 and 2017, allocated on the basis of the country in which the assets are located.

(in thousands of Euro)	**Year ended 31 December**		
	2019	**2018**	**2017**
Italy	50,545	50,557	33,642
Germany	23,797	24,402	25,023
Total non-current assets	**74,342**	**74,959**	**58,665**

Lastly, in accordance with IFRS 8, paragraph 34, in 2019 there were no customers responsible for generating more than 10% of total revenues, while in the years ended 31 December 2018 and 2017, one client generated 10.1% and 10.1% of the Group's total revenues respectively.

8 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8.1 Property, plant and equipment

The table below shows a breakdown of and changes in the item "Property, plant and equipment" for the years 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Land and buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Leasehold improvements**	**Assets under construction and payments on account**	**Total**
Historical cost at 01 January 2017	**258,377**	**110,886**	**4,608**	**4,781**	**-**	**1,054**	**379,706**
Investments	79	4,318	217	211	220	329	5,374
Restructuring of real estate portfolio	(243,952)	-	-	-	-	-	(243,952)
Disposals	-	(72)	(11)	(188)	-	-	(271)
Reclassifications	50	805	-	-	-	(855)	-
Historical cost at 31 December 2017	**14,554**	**115,937**	**4,814**	**4,804**	**220**	**528**	**140,857**
Investments	154	4,562	212	52	154	451	5,585
Disposals	-	(98)	(3)	(112)	-	-	(213)
Reclassifications	-	320	9	-	-	(329)	-
Historical cost at 31 December 2018	**14,708**	**120,721**	**5,032**	**4,744**	**374**	**650**	**146,229**
Investments	80	3,083	118	194	203	1,074	4,752
Disposals	-	(16)	(1)	(123)	-	-	(140)
Reclassifications	-	157	-	-	-	(157)	-
Change to the consolidation scope	29	855	3	49	1,008	72	2,016
Historical cost at 31 December 2019	**14,817**	**124,800**	**5,152**	**4,864**	**1,585**	**1,639**	**152,857**
Provision for depreciation at 31 December 2016	**(57,092)**	**(89,403)**	**(4,001)**	**(4,469)**	**-**	**-**	**(154,965)**
Amortisation	(2,408)	(5,225)	(275)	(105)	(6)	-	(8,019)
Restructuring of real estate portfolio	53,870	-	-	-	-	-	53,870
Disposals	-	57	11	159	-	-	227
Write-downs	-	(105)	-	-	-	-	(105)
Provision for depreciation at 31 December 2017	**(5,630)**	**(94,676)**	**(4,265)**	**(4,415)**	**(6)**	**-**	**(108,992)**
Amortisation	(466)	(5,681)	(459)	(162)	(11)	-	(6,779)
Disposals	-	98	1	112	-	-	211
Provision for depreciation at 31 December 2018	**(6,096)**	**(100,259)**	**(4,723)**	**(4,465)**	**(17)**	**-**	**(115,560)**
Amortisation	(738)	(4,287)	(159)	(160)	(196)	-	(6,066)
Disposals	-	16	-	119	-	-	135
Write-downs	-	-	-	(93)	-	-	(93)
Provision for depreciation at 31 December 2019	**(6,834)**	**(104,530)**	**(4,882)**	**(4,599)**	**(213)**	**-**	**(121,058)**
Net carrying amount at 01 January 2017	**201,285**	**21,483**	**607**	**312**	**-**	**1,054**	**224,741**
Net carrying amount at 31 December 2017	**8,924**	**21,261**	**549**	**389**	**214**	**528**	**31,865**
Net carrying amount at 31 December 2018	**8,612**	**20,462**	**309**	**279**	**357**	**650**	**30,669**
Net carrying amount at 31 December 2019	**7,983**	**20,270**	**270**	**265**	**1,372**	**1,639**	**31,799**

During 2017, the Issuer's land and buildings, namely the production plants at Sansepolcro (AR), Ozzano Taro (PR), Reggio Emilia, Lodi, Lecce and Eboli (SA), and Corticella's plants at Bologna and Corte de' Frati (CR), were part of the Restructuring of the Real Estate Portfolio (see Section 1, paragraph 1.2). These property assets were then assigned to Newlat under specific lease contracts reflected, as of 1 January 2018 following adoption of IFRS 16, among the right-of-use assets and the lease liabilities (see Note 8.3).

Investments in property, plant and equipment for the years ended 31 December 2019, 2018 and 2017, totalling€4,752 thousand, €5,585 thousand and €5,374 thousand respectively, were attributable mainly to the renovation of production lines.

The net value of property, plant and equipment disposed of in the years ending 31 December 2019, 2018 and 2017 is not significant.

At 31 December 2019, 2018 and 2017, the net value of capital contributions classified as a reduction in the value of core plant and equipment amounted to €561 thousand, €1,215 thousand and €1,869 thousand respectively. The related income for the years ended 31 December 2019, 2018 and 2017 amounted to €654 thousand and was classified as a reduction in the depreciation of the aforementioned plant and equipment. In the year ended 31 December 2017, the Group recorded property, plant and equipment write-downs of €105 thousand. These write-downs relate mainly to capital goods for which the Group agreed that the conditions for producing future profits were no longer in place.

The 2019 changes in the consolidation scope refer exclusively to the acquisition of Delverde Industrie Alimentari S.p.A.

As at 31 December 2019, 2018 and 2017, there were no real estate assets or proprietary capital goods subject to any kind of guarantee given to third parties.

8.2 Right-of-use assets and *lease* liabilities

The table below shows a breakdown of the item "Right-of-use assets" for the years ended 31 December 2019 and 2018:

(in thousands of Euro)	**Right-of-use assets**
Historical cost at 01 January 2018	**22,480**
Increases	1,612
Decreases	(32)
Historical cost at 31 December 2018	**24,060**
Increases	909
Decreases	(245)
Change to the consolidation scope	5,517
Historical cost at 31 December 2019	**30,241**
Provision for depreciation at 01 January 2018	**-**
Amortisation	(5,487)
Disposals	4
Provision for depreciation at 31 December 2018	**(5,483)**
Amortisation	(5,626)
Disposals	(1,806)
Provision for depreciation at 31 December 2019	**(12,915)**
Net carrying amount at 01 January 2018	**22,480**
Net carrying amount at 31 December 2018	**18,577**
Net carrying amount at 31 December 2019	**17,326**

At 31 December 2019, the Group found no indicators of long-term impairment for right-of-use assets.

The table below displays the non-discounted contractual values of the Group's lease liabilities at 31 December 2019 and 2018, following the application of IFRS 16 as of 1 January 2018.

(in thousands of Euro)	**At 31 December 2019**					
	less than 1 year	**between 1 and 2 years**	**between 3 and 5 years**	**over 5 years**	**Contract value**	**Book value**
Lease liabilities	5,449	4,425	7,287	2,093	**19,254**	**17,809**

(in thousands of Euro)	**At 31 December 2018**					
	less than 1 year	**between 1 and 2 years**	**between 3 and 5 years**	**over 5 years**	**Contract value**	**Book value**
Lease liabilities	5,481	4,458	9,549	711	**20,199**	**19,197**

The discount rate was determined on the basis of the marginal borrowing rate of the Group, i.e. the rate that the Group would have to pay for a loan, with a similar maturity and collateral, needed to obtain an asset of similar value to the right-of-use asset in a similar economic climate. The Group has decided to apply a single discount rate to a lease portfolio with reasonably similar characteristics, such as leases with a similar residual maturity for a similar underlying asset class, in a similar economic climate.

The main information relating to the lease agreements held by the Group, which acts mainly as a lessee, is shown in the following table:

(in thousands of Euro)	**At 31 December 2019**
Net book value of right-of-use assets (real estate)	13,940
Net book value of right-of-use assets (machinery)	1,639
Net book value of right-of-use assets (motor vehicles)	1,746
Total net book value of right-of-use assets	**17,326**
Current lease liabilities	4,776
Non-current lease liabilities	13,032
Total lease liabilities	**17,808**
Depreciation of right-of-use assets (real estate)	3,794
Depreciation of right-of-use assets (machinery)	1,129
Depreciation of right-of-use assets (motor vehicles)	703
Total depreciation of right-of-use assets	**5,626**
Interest expense on *leases*	**502**
Short-term *lease* costs	106
Costs to lease low-value assets	882
Variable payments not included in *lease* liabilities	155
Total other costs	**1,143**
Total lease outflows	**6,059**

Real estate right-of-use assets relate mainly to the production plants in Sansepolcro (AR), Ozzano Taro (PR), Reggio Emilia, Lodi, Lecce and Eboli (SA), leased to Newlat under the agreements entered into with New Property, as well as to the plants in Bologna and Corte de' Frati (CR), rented out by Corticella. The term of the lease of the aforementioned properties has been set at six years, based on the withdrawal options provided for in the contracts themselves and on managerial assessments. The rental contracts stipulated between the parties have the same structure, namely: (i) a term of six years automatically extendable for a further six years, with any subsequent tacit renewals every six years, and (ii) the early termination options exercisable by the lessor upon renewal and by the lessee, which may withdraw at any time and without cause, with six months' notice. On the basis of the assessments carried out in accordance with IFRS 16, *management* is reasonably certain of holding the leases for a period of six years from the date of signing of the contracts.

These leases fall within the scope of related party transactions; please see the Section 10 below.

Machinery right-of-use assets refer mainly to the lease of capital goods used in the production process.

8.3 Intangible assets

The table below shows a breakdown of and changes in the item "Intangible assets" for the years 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Goodwill**	**Patents and intellectual property rights**	**Concessions, licences, trademarks and similar rights**	**Other assets**	**Assets under development**	**Total**
Historical cost at 01 January 2017	**3,863**	**3,478**	**70,611**	**2,917**	**5**	**80,874**
Investments	-	178	43	67	66	**354**
Reclassifications	-	5	-	-	(5)	**-**
Historical cost at 31 December 2017	**3,863**	**3,661**	**70,654**	**2,984**	**66**	**81,228**
Investments	-	90	39	79	-	**208**
Reclassifications	-	66	-	-	(66)	**-**
Historical cost at 31 December 2018	**3,863**	**3,817**	**70,693**	**3,063**	**-**	**81,436**
Investments	-	369	31	7	108	**515**
Disposals	-	-	-	-	-	**-**
Business combinations		-	-	-	-	**-**
Change to the consolidation scope	-	22	186	-	-	**208**
Historical cost at 31 December 2019	**3,863**	**4,208**	**70,910**	**3,070**	**108**	**82,159**
Provision for depreciation at 01 January 2017	**-**	**(3,025)**	**(47,471)**	**(2,800)**	**-**	**(53,296)**
Amortisation	-	(194)	(897)	(41)	-	**(1,132)**
Provision for depreciation at 31 December 2017	**-**	**(3,219)**	**(48,368)**	**(2,841)**	**-**	**(54,428)**
Amortisation	-	(362)	(882)	(51)	-	**(1,295)**
Provision for depreciation at 31 December 2018	**-**	**(3,581)**	**(49,250)**	**(2,892)**	**-**	**(55,723)**
Amortisation	-	(128)	(936)	(155)	-	**(1,219)**
Disposals	-	-	-	-	-	**-**
Change to the consolidation scope	-	-	-	-	-	**-**
Provision for depreciation at 31 December 2019	**-**	**(3,709)**	**(50,186)**	**(3,047)**	**-**	**(56,942)**
Net carrying amount at 01 January 2017	**3,863**	**453**	**23,140**	**117**	**5**	**27,578**
Net carrying amount at 31 December 2017	**3,863**	**442**	**22,286**	**143**	**66**	**26,800**
Net carrying amount at 31 December 2018	**3,863**	**236**	**21,443**	**171**	**-**	**25,713**
Net carrying amount at 31 December 2019	**3,863**	**499**	**20,724**	**23**	**108**	**25,217**

Investments in intangible assets for the years ended 31 December 2019, 2018 and 2017, totalling€515 thousand, €208 thousand and €354 thousand respectively, were attributable mainly to software purchases.

There were no indicators of long-term impairment for intangible assets for the years ended 31 December 2019, 2018 and 2017.

The following is a description of the main items that make up intangible assets:

Goodwill

Goodwill refers to the acquisition of Centrale del Latte di Salerno S.p.A. (later merged into Newlat Food S.p.A. with legal effect from 31 December 2019), which is the cash generating unit (CGU). This amount reflects the difference between the purchase price and the equity of Centrale del Latte di Salerno on the acquisition date in December 2014.

The latest impairment test, approved by the Board of Directors on 19 March 2020, was prepared with the support of an independent professional, comparing the book value of goodwill with the recoverable value of the related CGU.

The recoverable amount is the value in use, determined by discounting the CGU's forecast data ("DCF Method") for the three years after the reporting date. The key assumptions used by *management* to determine the forecast data of the CGU are estimates of growth of revenues, EBITDA, operating cash flows, the growth rate of the terminal value and the weighted average cost of capital (discount rate), taking into account past profits/losses and future expectations.

The reasonableness of the margins in the explicit forecast period was also verified and deemed to be equal to that recorded in 2019.

The terminal value of the CGU was determined using the perpetual yield criterion of the CGU's normalised cash flow, with reference to the latest forecast period considered, assuming a growth rate and a discount rate ("WACC", which represents the weighted average between the cost of equity and the cost of debt, after tax), as represented below:

(Percentage)	**At 31 December 2019**
Growth rate	0.5%
WACC	8.3%

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

(i) the following sources of information have been used:

a) internal sources: IAS 36 requires that the estimate of value in use be based on senior management's most up-to-date results flows forecasts. This means that the 2019-2022 Business Plan was used for the goodwill impairment test as at 31 December 2019. The Company's Board of Directors approved this test, as well as the flows represented therein, on 19 March 2020. For the purposes of estimating the value in use, investments of approximately €150 thousand per year have been envisaged. For the goodwill *impairment test* as at 31 December 2019, in the interests of prudence, no improvements in operating costs are predicted and therefore a constant margin was considered over the period (EBITDA margin of 4%). This means that any EBITDA growth is due to expected growth in turnover.

b) <u>external sources:</u> for the goodwill *impairment test*, external sources of information were used for the purposes of calculating the cost of capital set out below. All information for calculating the cost of capital is from an external source. The estimated calculation of the weighted average cost of capital was based on:

- the CAPM to estimate *the cost of equity*;

- the WACC (Modigliani-Miller) formula for estimating the weighted average cost of capital (after tax).

The cost of capital was calculated considering the financial structure of Centrale del Latte di Salerno corresponding to 100% *equity* and having liquidity available rather than financial debts as at 31 December 2019.

(ii) the following main basic assumptions were also used:

a) average revenue increase of 3% per annum from 2020 to 2022; and

b) EBITDA *margin* in the forecast years of 4%.

The revenue growth assumed for the years of the explicit period is marginally higher than the expected growth of the Italian market, in view of the good competitive position of the subsidiary, but above all in view of (i) the company's planned growth strategies, focused on R&D activities (including *high protein* milk); (ii) a guaranteed supply chain with strong local roots; (iii) and the development of new Group products.

The results of *the impairment* tests carried out show that the estimated recoverable value for the CGU exceeds its book value by more than €2.2 million. The value in use was calculated on the basis of a weighted average cost of capital (WACC) equal to 8.3% and a terminal cash flow growth rate (g) of 0.5%. Sensitivity analyses were also carried out to verify the effects on the impairment test results of a ±0.5% and ±0.25% change respectively in the WACC and growth rate, both parameters deemed to be significant. In particular, assuming no other changes, individual changes in the main parameters used for the test in question do not result in the recoverable value of the CGU being less than the relative book value. To negate the difference between value in use and book value, the cost of capital (WACC) would have to increase by more than 400 *basis points* and the terminal growth rate would have to be negative and down by more than 660 *basis points*.

Industrial patents and rights to use intellectual property

This item consists almost exclusively of *software* costs.

Concessions, licences, trademarks and similar rights

The following table shows a breakdown of "Concessions, licences, trademarks and similar rights" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	**2018**	**2017**
Trademarks with an indefinite useful life	18,844	18,844	18,844
Trademarks with a finite useful life	1,880	2,599	3,442
Total net book value	**20,724**	**21,443**	**22,286**

a) Trademarks with an indefinite useful life

This item refers exclusively to the Drei Glocken and Birkel brands registered by Newlat Deutschland in 2014 following the acquisition of the related business unit from Ebro Foods. The value of these brands has been *subjected to impairment* testing, with the help of an independent third-party professional. The 2019-22 Business Plan was used for the impairment test as at 31 December 2019. The Board of Directors approved this test, as well as the flows represented therein, on 19 March 2020.

The *impairment test* was carried out using *the Relief From Royalty* method. In line with valuation doctrine and standard practice, this technique involves estimating the additional costs that would arise if the German company was without a particular *asset* and had to obtain it under license from third parties. First, *royalty* rates in line with the relevant sector were used. These rates were then applied not only to the expected revenues generated by the brands over the period covered by the Plan, but also to a normalised flow, considering a perpetual return as a terminal value, consistent with the indefinite useful life of the trademarks. Consistent with standard valuation practice, there was also a tax amortisation benefit (TAB) amount, representing the tax benefit related to the deductibility of amortisation of the *asset* under analysis, which constitutes an additional element for determining the value attributable to the brands.

Under the relief from royalty method, the brands were measured using an explicit forecast period of 3 years, which reflects the assumptions regarding the short- and medium-term developments of the reference market. After the explicit forecast period, the terminal value of the CGU was determined using the perpetuity method, assuming a specific long-term growth rate defined according to the expected long-term inflation rate and the characteristics of the sector.

The information relating to the explicit forecast period used to determine the value in use is based on assumptions founded on past experience, supplemented by current internal developments and verified through market data and external analyses. In this regard, the most important assumptions include: (i) the development of future sales prices, revenues and costs; (ii) the influence of the market regulatory environment; (iii) expected investments and expected market shares; and (iv) exchange rates and growth rates. For the 2020 and 2021 revenues, however, the compound annual growth rate (CAGR) was estimated at 1%, which is conservative given both the outlook for the German pasta market (average annual revenue growth of 2% for the dried pasta sector between 2018 and 2021) and the market-leading positions of the "Birkel" and "Drei Glocken" brands. Any significant changes to the assumptions described above would affect the determination of the value in use.

The discount rates applied are determined on the basis of external factors deriving from the market and adjusted on the basis of the prevailing risks of the cash generating units.

The main assumptions used for *the purposes of the impairment test* are summarised below:

(Percentage)	**At 31 December 2019**	**At 31 December 2018**	**At 31 December 2017**
WACC	5.4%	5.1%	5.1%
Long-term growth rate (inflation rate expected in the long term)	0.5%	0.5%	0.5%

The following table displays the assumptions underlying the calculation of the discount rate for the year ending 31 December 2019:

Component	**Parameter**
Risk-free rate	0.18%
Market risk premium	8%
Levered beta	0.72
Cost of equity	5.9%
Cost of net debt	1.42%
Discount rate	**5.4%**

The following were also assumed when determining the value of the trademarks:

- a growth rate (g) of 0.5%, which is prudent compared with medium-to-long-term inflation estimates for the reference market, Germany, of around 2.2%.

- a TAB of €1.3 million, determined on the basis of the original value of the asset, assuming a reference period of 15 years from the date of reference of the *impairment* and using a tax rate of 31%.

It should be noted that the value attributed to the terminal value is 81% of the recoverable value of the brands.

The results of the impairment tests carried out at 31 December 2019, 2018 and 2017 showed that the recoverable value of each cash generating unit exceeds the relative book value at each reference date. In particular, for the impairment test conducted on the year ending 31 December 2019, the recoverable value was estimated at €22.3 million, compared with a book value of approximately €18.9 million, i.e. a surplus of €3.4 million.

Sensitivity analyses were also carried out to verify the effects on *the results of the impairment test* of changes to certain significant parameters. At 31 December 2019, the recoverable amount would have been equal to the carrying amount if the discount rate used had been greater than 1% or the growth rate reduced by 2%.

There were no write-downs of the Drei Glocken and Birkel brands in previous years.

b) Trademarks with a finite useful life

This item includes brands owned by Newlat, amortised according to the residual useful life, estimated on the basis of the period of time over which it is considered that they are guaranteed to generate cash flows.

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

At 31 December 2019, 2018 and 2017, non-current financial assets measured at *fair value* through profit or loss amounted to €42 thousand, €32 thousand and €32 thousand respectively. These balances, which are not material, relate to smaller corporate capital instruments.

8.5 Financial assets measured at amortised cost

At 31 December 2019, 2018 and 2017, financial assets at amortised cost amounted to €866 thousand, €858 thousand and €975 thousand respectively. These balances refer to security deposits paid against existing lease agreements.

8.6 Prepaid tax assets and deferred tax liabilities

The following table shows a breakdown of "Prepaid tax assets" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**At 31 December**		
	2019	**2018**	**2017**
Provisions	2,420	2,546	3,407
Tax losses carried forward	394	394	1,181
Amortisation of trademarks with a finite useful life	930	1,085	1,240
Other	1,290	819	653
Gross prepaid tax assets	**5,034**	**4,844**	**6,481**
Offsetting with deferred tax liabilities	-	-	(95)
Total prepaid tax assets	**5,034**	**4,844**	**6,386**

Prepaid tax assets are recognised where it is probable that future taxable income will be realised against which they can be used.

At 31 December 2019, no prepaid tax assets relating to previous tax losses of the incorporated Delverde Industrie Alimentari S.p.A. were recognised, as they will be the subject of a future appeal to the Revenue Agency to have them recognised and to be exempt from the carry-over restriction up to the limit of the equity of the incorporated company. The amount of these tax losses, not recognised in the financial statements, is approximately €30.6 million.

The following table shows a breakdown of "Deferred tax liabilities" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	**2018**	**2017**
Intangible assets	3,850	3,850	3,850
Property, plant and equipment	-	-	119
Gross deferred tax liabilities	**3,850**	**3,850**	**3,969**
Offsetting with prepaid tax assets	-	-	(95)
Total deferred tax liabilities	**3,850**	**3,850**	**3,874**

Deferred tax liabilities arising from intangible assets at 31 December 2019, 2018 and 2017 are attributable to the Drei Glocken and Birkel brands belonging to Newlat Deutschland.

In 2017, the Issuer's property assets, responsible for a large share of the deferred tax liabilities recognised following the revaluations of the assets involved in the restructuring of the property portfolio as part of the transition to IFRS implemented in 2014, were the subject of the Restructuring of the Real Estate Portfolio (see Section 1, paragraph 1.2).

The following table displays a breakdown of and changes in the gross value of prepaid tax assets for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Provisions**	**Tax losses carried forward**	**Amortisation**	**Other**	**Total prepaid tax assets**
Balance at 31 December 2017	**3,407**	**1,181**	**1,240**	**558**	**6,386**
Provisions (releases) to income statement	(861)	(787)	(155)	276	(1,622)
Provisions (releases) to statement of other comprehensive income	-	-	-	(67)	(67)
Reclassifications	-	-	-	52	52
Balance at 31 December 2018	**2,546**	**394**	**1,085**	**819**	**4,844**
Provisions (releases) to income statement	(126)		(155)	379	98
Provisions (releases) to statement of other comprehensive income	-	-	-	94	94
Balance at 31 December 2019	**2,420**	**394**	**930**	**1,290**	**5,034**

The following table displays a breakdown of and changes in the gross value of deferred tax liabilities for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Intangible assets**	**Property, plant and equipment**	**Total deferred tax liabilities**
Balance at 01 January 2017	**3,850**	**29,881**	**33,731**
Provisions (releases) to income statement	-	224	224
Provisions (releases) to statement of other comprehensive income	-	-	-
Spin-off	-	(30,081)	(30,081)
Balance at 31 December 2017	**3,850**	**24**	**3,874**
Provisions (releases) to income statement	-	(76)	(76)
Provisions (releases) to statement of other comprehensive income	-	-	-
Reclassifications	-	52	52
Balance at 31 December 2018	**3,850**	**-**	**3,850**
Provisions (releases) to income statement	-	-	-
Provisions (releases) to statement of other comprehensive income			
Balance at 31 December 2019	**3,850**	**-**	**3,850**

Prepaid tax assets and deferred tax liabilities arise from the temporary differences between the value attributed to an asset or liability in the financial statements and the value attributed to that asset or liability for tax purposes.

8.7 Inventories

The following table shows a breakdown of "Inventories" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**At 31 December**		
	2019	**2018**	**2017**
Raw materials, supplies, consumables and spare parts	14,735	14,479	13,153
Finished products and goods	12,048	10,759	12,583
Semi-finished products		14	-
Advance payments	41	34	34
Total gross inventories	**26,824**	**25,286**	**25,770**
Inventory write-down reserve	(944)	(35)	(35)
Total inventories	**25,880**	**25,251**	**25,735**

Inventories are recorded net of the obsolescence reserve, which amounted to €944 thousand at 31 December 2019 and €35 thousand and 31 December 2018 and 2017.

Changes in the inventory write-down reserve during 2019 are shown below:

(in thousands of Euro)	**Inventory write-down reserve**
Balance at 31 December 2018	**35**
Provisions	699
Uses/Releases	(43)
Change to the consolidation scope	253
Balance at 31 December 2019	**944**

8.8 Trade receivables

The following table shows a breakdown of "Trade receivables" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	**2018**	**2017**
Trade receivables from customers	64,675	68,549	68,208
Trade receivables from related parties	19	19	19
Trade receivables (gross)	**64,694**	**68,568**	**68,227**
Provision for doubtful trade receivables	**(15,420)**	**(14,699)**	**(13,797)**
Total trade receivables	**49,274**	**53,869**	**54,430**

The following table displays the changes in the provision for doubtful trade receivable for the years ended 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Provision for doubtful trade receivables**
Balance at 01 January 2017	**12,918**
Provisions	928
Uses	(49)
Releases	-
Balance at 31 December 2017	**13,797**
Provisions	937
Uses	(35)
Releases	-
Balance at 31 December 2018	**14,699**
Provisions	500
Uses	(8)
Change in consolidation scope	229
Releases	-
Balance at 31 December 2019	**15,420**

The net value of overdue trade receivables at 31 December 2019, 2018 and 2017 amounted to €12,112 thousand, €14,798 thousand and €12,070 thousand respectively.

Analysis of the credit risk, including details of the provisioning for doubtful receivables for the individual bands of overdueness, can be found in Section 4 - "Management of Financial Risks".

Analysis of trade receivables from related parties can be found in Section 10 - "Transactions with Related Parties".

The book value of trade receivables is deemed to approximate their *fair value*.

8.9 Current tax assets and liabilities

Current tax assets totalled €716 thousand, €775 thousand and €1,179 thousand at 31 December 2019, 2018 and 2017 respectively.

Current tax liabilities totalled €471 thousand, €410 thousand and €1,437 thousand at 31 December 2019, 2018 and 2017 respectively.

The changes in the net balances of the assets and liabilities in question for the years ended 31 December 2019, 2018 and 2017 refer mainly to the provisioning of current income taxes in the respective amounts of €344 thousand, €1,577 thousand and €1,586 thousand and to respective payments of €738 thousand, €2,220 thousand and €420 thousand.

8.10 Other receivables and current assets

The following table shows a breakdown of "Other receivables and current assets" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	**2018**	**2017**
Receivables from New Property	-	10,000	18,192
Tax assets	2,144	2,412	1,805
Receivables from social security institutions	699	768	803
Advance payments	530	542	670
Accrued income and prepayments	401	305	311
Other receivables	927	413	547
Total other receivables and current assets	**4,701**	**14,440**	**22,328**

Receivables from New Property at 31 December 2018 and 2017 referred to the outstanding receivable, subsequently collected, resulting from the adjustment following the New Property Spin-off on 1 June 2017 (see Section 1, paragraph 1.2).

Receivables from social security institutions at 31 December 2019, 2018 and 2017 mainly refer to receivables from INAIL, amounting to €699 thousand, €706 thousand and €729 thousand respectively.

Advance payments at 31 December 2019, 2018 and 2017 refer mainly to sums paid for future supplies in the respective amounts of €407 thousand, €355 thousand and €382 thousand.

Tax receivables at 31 December 2019, 2018 and 2017 mainly refer to VAT receivables, amounting to €454 thousand, €1,645 thousand and €1,270 thousand respectively.

8.11 Current financial assets measured at fair value through profit or loss

The following table provides a breakdown of "Current financial assets measured at fair value through profit or loss" at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	**2018**	**2017**
Fixed rate bonds (BMPS)	-	-	276
Unlisted shares	4	4	4
Total current financial assets measured at fair value through profit or loss	**4**	**4**	**280**

This item includes minority interests in other companies held for sale and bonds held for sale.

8.12 Cash and cash equivalents

The following table shows a breakdown of "Cash and cash equivalents" at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	**2018**	**2017**
Pooled bank cash deposits	45,338	61,429	71,621
Bank and postal deposits	55,508	318	250
Cash at hand	38	39	189
Total cash and cash equivalents	**100,884**	**61,786**	**72,060**

Bank and postal deposits refer to cash and cash equivalents deposited in current accounts held with leading banking and financial institutions.

At 31 December 2019, 2018 and 2017, cash and cash equivalents were not subject to restrictions or constraints.

Please see the statement of cash flows for changes in the "Cash and cash equivalents" item during the periods under review.

A description of the cash pooling agreements in force on the individual dates is provided below.

Cash pooling agreements between Newlat and Newlat Group and between Centrale del Latte di Salerno and Newlat Group

In 2010, Newlat Group (hereinafter, the "**Pool Leader**") entered into three separate agreements with Unicredit Corporate Banking S.p.A. and one agreement with Monte dei Paschi di Siena (Banca Antonveneta S.p.A. at the time) aimed at activating cash pooling relationships with Newlat. In 2015, Newlat Group also entered into an agreement with Unicredit Corporate Banking S.p.A. aimed at initiating cash pooling relationships with Centrale del Latte di Salerno.

Under these agreements, the individual current accounts in the name of the Pool Leader (hereinafter, the "**Master Accounts**"), identified in each contract, received all the transactions and movements passing through the individual current accounts of Newlat and Centrale del Latte di Salerno, which were also identified in each contract, so that the balances on the accounts of these two companies resulting from the daily transactions would be transferred at the end of each day to the Master Accounts, together with the respective value dates of the transactions, cleared on a daily basis.

The respective reciprocal debtor and creditor positions of the subsidiaries and the Pool Leader are represented by the day-end balance of the subsidiaries' accounts - through which each individual transaction passed - which will be transferred to the Master Accounts. If this balance is positive, the cash will be transferred to the Master Accounts, while if it is negative, the Pool Leader will credit this amount to the subsidiaries' accounts. As a result of these reciprocal debits and credits, which are transferred on a daily basis, the balance of the Newlat and Centrale del Latte di Salerno accounts will always be zero.

Based on the contractual agreements, Newlat and Centrale del Latte di Salerno have access to flexible credit lines awarded by the banks after a guarantee has been given by the Pool Leader. In the absence of such a guarantee, the companies pay specific fees (through the Pool Leader) to gain access to the credit lines.

The lending and borrowing interest rate applicable to these cash pooling arrangements is the three-month Euribor plus a spread of 3%.

As a result of the merger by incorporation of Centrale Latte di Salerno S.p.A. on 31 December 2019, the effects pertaining to this company were transferred to Newlat Food S.p.A.

At the date of preparation of these Combined Consolidated Financial Statements, the Company is in the process of finalising the transfer of cash pooling management from the parent company Newlat Group S.A. to the subsidiary Newlat Food S.p.A., which will therefore shortly assume the role of pooler.

Cash pooling agreements between Newlat Deutschland and Newlat Group

Under the cash pooling agreement entered into on 31 December 2017 between Newlat Group (hereinafter, the "**Pool Leader**") and Unicredit Corporate Banking S.p.A., aimed at initiating cash pooling arrangements with Newlat Deutschland, the current account in the name of the Pool Leader (hereinafter, the "**Master Account**"), receives all the transactions and movements passing through the Newlat Deutschland current account so that the balance on Newlat Deutschland's account resulting from the daily transactions will be transferred at the end of each day to the Master Account, together with the respective value dates of the transactions, cleared on a daily basis.

The respective reciprocal debtor and creditor positions of the subsidiary and the Pool Leader are represented by the day-end balance of the subsidiary's account - through which each individual transaction passed - which will be transferred to the Master Account. If this balance is positive, the cash will be transferred to the Master Account, while if it is negative, the Pool Leader will credit this amount to the subsidiary's account.

The lending rate applied to these cash pooling arrangements is the three-month Euribor plus a spread of 1%, while the borrowing rate is the three-month Euribor plus a spread of 3%.

8.13 Shareholders' equity

The item "Shareholders' equity" at 31 December 2019, 2018 and 2017 totalled €91,545 thousand, €63,540 thousand and €67,446 thousand respectively. The statement of changes in consolidated equity is shown in the relevant section.

The changes that affected shareholders' equity for the year ended 31 December 2019 related to the following effects:

- the distribution of shareholders' equity in favour of the shareholder Newlat Group S.A., resulting from the payment of €58,324 thousand for the acquisition of Newlat GmbH, against the consolidation of the company from 01 January 2017 as part of the preparation of the combined consolidated financial statements, consistent with the accounting treatment of transactions between related parties under common control;
- the fee for the institutional placement during the IPO of 29 October 2019 of 13,780,482 shares for a total amount of €79,927 thousand, gross of bank fees and other transaction costs relating to the listing transaction, noted subsequently;
- the listing costs related to the public offer for subscription, recorded as a direct reduction of shareholders' equity for a total amount of €5,077 thousand;
- the tax benefit related to IPO costs, for a total amount of €1,416 thousand;
- the recognition of the net profit for the period, in the amount of €10,311 thousand;
- other minor changes in the amount of €249 thousand.

The changes that affected shareholders' equity for the year ended 31 December 2018 related to:

- the "distribution" of shareholders' equity in favour of the shareholder Newlat Group, resulting from the down payment of €10,000 thousand for the acquisition of Newlat Deutschland, recognised, against the consolidation of the company from 1 January 2017, as part of the preparation of the Combined Consolidated Financial Statements, consistent with the accounting treatment of transactions *under common control*;

- the recognition of the total net profit for the year, in the amount of €6,094 thousand.

The changes that affected shareholders' equity for the year ended 31 December 2017 related to:

- the negative impact of the Restructuring of the Real Estate Portfolio, equal to €63.467 thousand (see Section 1, paragraph 1.2);
- the "distribution" of shareholders' equity in favour of the shareholder Newlat Group, resulting from the cash payment of €539 thousand for the acquisition of the Corticella Business Unit, recognised, against the consolidation of the company from 1 January 2017, as part of the preparation of the Combined Consolidated Financial Statements, consistent with the accounting treatment of transactions *under common control*;
- the distribution of dividends to the sole shareholder Newlat Group in an amount equal to €3,000 thousand, as resolved by the Issuer's Ordinary Shareholders' Meeting on 28 June 2017;
- the recognition of the total net profit for the year, in the amount of €4,242 thousand.

Share capital

As at 31 December 2019, the Company's fully subscribed and paid-up share capital totalled Euro 40,780 thousand, divided into 40,780 ordinary shares that were dematerialised as a result of the IPO operation.

Legal reserve

The legal reserve at 31 December 2019, 2018 and 2017 totalled €2,123 thousand, €1,712 thousand and €1,590 thousand respectively.

8.14 Provisions for employee benefits

The table below shows a breakdown of and changes in the item "Provisions for employee benefits" for the years 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Employee severance indemnity (Italian companies)**	**Newlat Deutschland Pension Plan**	**Employee benefits**
Balance at 01 January 2017	**10,756**	**448**	**11,204**
Current service cost	69	9	78
Financial expenses	96	9	105
Actuarial losses/(gains)	233	6	239
Benefits paid	(305)	(7)	(312)
Balance at 31 December 2017	**10,849**	**465**	**11,314**
Current service cost	70	12	82
Financial expenses	139	6	145
Actuarial losses/(gains)	(201)	(8)	(209)
Benefits paid	(287)	(7)	(294)
Balance at 31 December 2018	**10,570**	**468**	**11,038**
Current service cost	**58**	**86**	**144**
Financial expenses	**159**		**159**
Actuarial losses/(gains)	**324**	**9**	**343**
Benefits paid	**(1,152)**		**(1,152)**
Change in consolidation scope	**125**		**125**
Balance at 31 December 2019	**10,084**	**563**	**10,646**

Provisions for employee benefits represent the estimated obligation, determined on the basis of actuarial techniques, relating to the amount to be paid to employees when their employment with the company ends.

Employee severance indemnity (TFR)

The debt for Newlat's employee severance indemnity, which falls within the IAS 19 definition of defined benefit plans, was determined according to actuarial logic. The following are the main actuarial, financial and demographic assumptions used to determine the value of the liability at 31 December 2019, 2018 and 2017, in accordance with the provisions of IAS 19:

	At 31 December		
	2019	**2018**	**2017**
Financial assumptions			
Discount rate	0.77%	1.30%	1.30%
Inflation rate	1.00%	1.50%	1.50%
Annual rate of salary increase	1.00%	1.50%	1.50%
Demographic assumptions			
Death	SIM/SIF2002 ISTAT table	SIM/SIF2002 ISTAT table	SIM/SIF2002 ISTAT table
Retirement	Achievement of the first pensionable requirement according to current legislation	Achievement of the first pensionable requirement according to current legislation	Achievement of the first pensionable requirement according to current legislation

The following table summarises the main assumptions relating to the annual *turnover* rate and requests for specific severance pay advances for each company adopted for the calculation of Newlat's and Centrale del Latte di Salerno's provisions for employee benefits in accordance with the provisions of IAS 19:

	At 31 December				
	2019	2018		2017	
Annual turnover rate and TFR Advances	**Newlat Food**	**Newlat Food**	**Centrale del Latte**	**Newlat Food**	**Centrale del Latte**
Frequency of advances	3.50%	3.50%	3.50%	3.00%	7.60%
Frequency of turnover	0.40%	0.40%	0.40%	3.80%	0.00%

The following table summarises the sensitivity analysis for each actuarial, financial and demographic assumption, showing the effects (in absolute terms) that would have occurred as a result of changes to the reasonably possible actuarial assumptions on 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Discount rate**		**Inflation rate**		**Rate of salary increase**		**Change in retirement age**	
	+0.50 %	**- 0.50 %**	**+0.50 %**	**- 0.50 %**	**+0.50%**	**-0.50%**	**+ 1 year**	**- 1 year**
Employee benefits (severance indemnities) at 31 December 2019	(526)	569	349	(326)	3	(3)	7	(7)
Employee benefits (severance indemnities) at 31 December 2018	(610)	665	402	(395)	10	(10)	37	(40)
Employee benefits (severance indemnities) at 31 December 2017	(537)	580	352	(346)	13	(13)	41	(44)

Newlat Deutschland Pension Plan

The following table summarises the main actuarial and financial assumptions made, in accordance with IAS 19, to determine the value of the liability relating to the Newlat Deutschland staff pension plan at 31 December 2019, 2018 and 2017:

	At 31 December		
	2019	2018	2017
Discount rate	2.02%	2.02%	1.93%
Rate of pension increase	1.70%	1.70%	1.70%

8.15 Provisions for risks and charges

The table below shows a breakdown of and changes in the item "Provisions for risks and charges" for the years 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Provision for agents' indemnities**	**Provision for legal risks**	**Provision for Ozzano Taro risks**	**Total provisions for risks and charges**
Balance at 01 January 2017	**798**	**69**	**16,621**	**17,488**
Provisions	118	-	-	118
Uses	(25)	-	-	(25)
Releases	-	-	(8,928)	(8,928)
Balance at 31 December 2017	**891**	**69**	**7,693**	**8,653**
Provisions	150	-	-	150
Uses	-	-	-	-
Releases	(102)	-	(7,693)	(7,795)
Balance at 31 December 2018	**939**	**69**	**-**	**1,008**
Provisions	128			128
Uses				
Releases	(34)			(34)
Change to the consolidation scope	138	156		294
Balance at 31 December 2019	**1,071**	**225**	**-**	**1,396**

The "Provision for Ozzano Taro risks" referred to estimated net future charges associated with the co-packing contract entered into with Heinz Italia S.p.A., which expired in 2018 and was signed upon acquisition of the Ozzano Taro plant at the end of October 2015. The agreement was defined as an "onerous contract" within the meaning of IAS 37, meaning that the Group's estimated net future charges at the acquisition date were recognised in a dedicated provision for risks, which was then used before 31 December 2018.

The provision for agents' indemnities represents a reasonable forecast of the charges that would be borne by the Group in the event of the interruption of agency relationships.

8.16 Current and non-current financial liabilities

The following table shows a breakdown of "Current and non-current financial liabilities" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December 2019		At 31 December 2018		At 31 December 2017	
	Current portion	**Non-current portion**	**Current portion**	**Non-current portion**	**Current portion**	**Non-current portion**
Loans from Newlat Group	-	-	-	9,000	-	9,000
Payables to Newlat Group for cash pooling	-	-	-	-	-	-
Total financial debt to Newlat Group	**-**	**-**	**-**	**9,000**	**27,705**	**15,000**
Unicredit loan agreement (Newlat)	1,690		1,644	1,691	1,599	3,335
Unicredit loan agreement (Newlat Deutschland)	89	-	1,057	87	1,025	1,143
Deutsche Bank loan agreement	3,000	12,000	-	-	-	-
Payables for advances on invoices	10,575	-	24,324	-	22,939	-
Other lines of credit	7,000	-				
Use of credit lines and current account overdrafts	102	-	138	-	145	-
Total financial debt to banks	**22,456**	**12,000**	**27,163**	**1,778**	**25,708**	**4,478**
Total financial liabilities	**22,456**	**12,000**	**27,163**	**1,778**	**25,708**	**13,478**

The following table shows an analysis by maturity of the financial liabilities outstanding at 31 December 2019:

(in thousands of Euro)	**Carrying amount at 31 December 2019**	**Expiry date**				
		Year 2020	**Year 2021**	**Year 2022**	**Year 2023**	**Year 2024**
Unicredit loan agreement (Newlat Food SpA)	1,691	1,691		-		
Unicredit loan agreement (Newlat Deutschland)	89	89	-	-		
Deutsche Bank loan agreement	15,000	3,000	3,000	3,000	3,000	3,000
Payables for invoice payments on account (BMPS)	10,575	10,575	-	-		
Other lines of credit	7,000	7,000				
Use of credit lines and current account overdrafts	102	102	-	-		
Total financial liabilities	**34,456**	**22,456**	**3,000**	**3,000**	**3,000**	**3,000**

Below is a description of the main items that made up the Group's financial liabilities at 31 December 2019, 2018 and 2017:

a) Loans outstanding at 31 December 2019

UniCredit loan agreement (Newlat Food S.p.A.)

On 29 December 2014, Newlat entered into a loan agreement with UniCredit S.p.A. for an amount of €8,000 thousand, to be used for the acquisition of all shares in Centrale del Latte di Salerno S.p.A.

The loan was set to mature on 31 December 2020. The contract provides for 12 monthly pre-amortisation instalments and then 60 monthly deferred repayments of the principal portion of the loan, from 31 January 2017 to 31 December 2020.

The applicable interest rate is variable and equal to the three-month Euribor plus a spread of 2.7%.

The loan agreement provides for the possibility of early repayment by Newlat provided that: (i) the arrears and all sums due in any form have been settled and (ii) a fee equal to 2% of the principal repaid in advance is paid.

The loan does not require compliance with financial *covenants*.

Deutsche Bank loan agreement (Newlat Food S.p.A.)

On 14 November 2019, Newlat entered into a loan agreement with Deutsche Bank for an amount equal to €15,000 thousand.

The loan was set to mature on 28 November 2024. The contract provides for 20 quarterly repayment instalments, starting from 20 February 2020.

The interest rate applicable to the loan agreement is 0.70%.

The loan does not require compliance with financial *covenants*.

UniCredit loan agreement (Newlat Deutschland)

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

The contract provides for reimbursement by means of 60 deferred monthly instalments and final maturity on 31 January 2020.

This loan does not require compliance with financial *covenants*.

b) Loans no longer outstanding at 31 December 2018

Loans from Newlat Group

The loans awarded by Newlat Group referred to:

- a €25,000 thousand loan agreement entered into on 15 May 2017 between Newlat Group and Newlat. This agreement made provision for the payment of quarterly interest at Euribor plus a spread of 2.5%. The agreement also made provision for repayment in a single or multiple tranches no later than 31 December 2020. The debt relating to this loan agreement was spun off as part of the New Property Spin-off in 2017;

- a €9,000 thousand loan agreement entered into on 22 May 2017 with Newlat Group. This agreement made provision for the payment of quarterly interest at Euribor plus a spread of 2.5%. The agreement also made provision for repayment in a single or multiple tranches no later than 31 December 2020. Newlat repaid the loan in full on 28 December 2018;

- a €15,000 thousand loan agreement entered into on 27 December 2016 between Newlat Group and Newlat. This agreement made provision for the payment of quarterly interest at Euribor plus a spread of 2.5%. The agreement also made provision for repayment in a single or multiple tranches no later than 31 December 2020. The debt relating to this loan agreement was spun off as part of the New Property Spin-off in 2017.

UniCredit loan agreement (the former company IAR)

This item referred to a €21,000 thousand loan agreement initially entered into in 2008 between Industrie Alimentari Riunite S.p.A (IAR), later merged into Newlat, and UniCredit Corporate Banking.

The loan was set to mature on 30 September 2019. The contract provided for four quarterly pre-amortisation instalments (starting on 31 December 2008 and ending on 30 September 2009) and then 40 quarterly deferred repayments of the principal portion of the loan, from 31 December 2009 to 30 September 2019.

The debt relating to this loan agreement was spun off as part of the New Property Spin-off in 2017.

FINMOLISE loan agreement (the former company IAR)

This item referred to a €568 thousand soft loan agreement initially entered into between Industrie Alimentari Riunite S.p.A (IAR), later merged into Newlat, and Finmolise S.p.A.

The loan was set to mature on 01 January 2020. The contract provided for 11 half-yearly pre-amortisation instalments (starting on 1 January 2000 and ending on 1 January 2005) and then 30 half-yearly deferred repayments of the principal portion of the loan, from 1 July 2005 to 1 January 2020.

The debt relating to this loan agreement was spun off as part of the New Property Spin-off in 2017.

c) Payables for advances on invoices

This item refers only to payables to credit institutions for advances on invoices.

The following table shows, in accordance with IAS 7, changes in financial liabilities arising from cash flows generated and/or absorbed by financing activities, as well as from non-monetary items.

(in thousands of Euro)	At 31 December 2018	New loans	Repayments	Reclassifications	At 31 December 2019
Non-current financial liabilities	1,778	-	-	10,309	12,000
Current financial liabilities	27,163	21,037	(15,792)	(10,309)	22,456
Total financial liabilities	**28,941**	**21,037**	**(15,792)**	**-**	**34,456**

(in thousands of Euro)	At 31 December 2017	New loans	Repayments	Reclassifications	At 31 December 2018
Non-current financial liabilities	13,478	-	(9,000)	(2,700)	1,778
Current financial liabilities	25,708	-	(1,245)	2,700	27,163
Total financial liabilities	**39,186**	**-**	**(10,245)**	**-**	**28,941**

(in thousands of Euro)	At 31 December 2016	New loans	Repayments	Reclassifications	Spin-off	At 31 December 2017
Non-current financial liabilities	26,912	34,000	-	(510)	(46,924)	13,478
Current financial liabilities	50,662	-	(25,464)	510	-	25,708
Total financial liabilities	**77,574**	**34,000**	**(25,464)**	**-**	**(46,924)**	**39,186**

8.17 Other non-current liabilities

The following table shows a breakdown of "Other non-current liabilities" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	2018	2017
Payables for acquisition of business units	600	3,121	4,619
Total other non-current liabilities	**600**	**3,121**	**4,619**

Payables for acquisitions of business units during the periods under review refer to the non-current portion of Newlat Deutschland's debt for the acquisition from Ebro Foods SA of the business unit which included the brands Drei Glocken and Birkel.

8.18 Trade payables

The following table shows a breakdown of "Trade payables" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	2018	2017
Trade payables to suppliers	85,443	92,026	90,432
Trade payables to related parties	149	195	728
Total trade payables	**85,592**	**92,221**	**91,160**

This item includes payables relating to the Group's normal production activities.

Analysis of trade payables to related parties can be found in Section 10 - "Transactions with Related Parties".

The book value of trade payables is deemed to approximate their *fair value*.

8.19 Other current liabilities

The following table shows a breakdown of "Other current liabilities" as at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	At 31 December		
	2019	2018	2017
Payables to employees	6,862	5,980	5,656
Payables to social security institutions	2,603	2,642	2,621
Payables for acquisitions of business units	1,973	1,902	2,402
Tax liabilities	1,935	1,570	2,105
Accrued expenses and deferred income	1,068	699	815
Miscellaneous payables	938	699	782
Total other current liabilities	**15,379**	**13,492**	**14,381**

Payables to employees relate mainly to salaries to be settled and deferred charges such as holidays, leave and additional monthly payments.

Payables to social security institutions mainly refer to liabilities with the INPS and other institutions for the payment of contributions.

Payables for acquisitions of business units during the periods under review refer to the current portion of Newlat Deutschland's debt for the acquisition from Ebro Foods SA of the business unit which included the brands Drei Glocken and Birkel.

Tax payables at 31 December 2019, 2018 and 2017 mainly refer to payables to the national revenue agency for withholding taxes, amounting to €1,849 thousand, €1,320 thousand and €1,289 thousand respectively.

9 NOTES TO THE CONSOLIDATED INCOME STATEMENT

9.1 Revenue from contracts with customers

The following table displays a breakdown of "Revenue from Contracts with Customers" by operating segment for the years ended 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Year ended 31 December**		
	2019	**2018**	**2017**
Pasta	133,268	122,689	121,864
Milk Products	70,216	71,050	69,651
Bakery Products	35,670	35,352	34,393
Dairy Products	33,271	30,190	28,609
Special Products	30,547	28,448	28,869
Other assets	17,931	18,101	19,698
Total revenue from contracts with customers	**320,902**	**305,830**	**303,084**

The following table displays a breakdown of "Revenue from Contracts with Customers" by distribution channel for the years ended 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Year ended 31 December**		
	2019	**2018**	**2017**
Mass Distribution	201,935	191,021	184,868
B2B partners	40,081	38,770	41,720
Normal trade	37,443	35,208	37,108
Private labels	33,235	32,627	31,872
Food services	8,208	8,204	7,516
Total revenue from contracts with customers	**320,902**	**305,830**	**303,084**

The following table displays "Revenue from Contracts with Customers" by geographical area for the years ended 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Year ended 31 December**		
	2019	**2018**	**2017**
Italy	173,643	163,581	156,719
Germany	93,294	89,865	91,270
Other countries	53,966	52,384	55,095
Total revenue from contracts with customers	**320,902**	**305,830**	**303,084**

Sectoral information is given in Section 7.

Revenue from contracts with customers for the years ended 31 December 2019 and 2018 is almost exclusively related to the sale of goods. Revenues associated with such sales of goods are recognised when control of the asset is transferred to the customer.

Revenues from Contracts with Customers for the year ended 31 December 2017 were recognised, pursuant to IAS 18, upon transfer of the risks and benefits associated with the goods being sold.

9.2 Operating costs

The following table provides details of operating costs broken down by purpose for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Year ended 31 December		
	2019	**2018**	**2017**
Cost of sales	262,212	256,060	255,115
Sales and distribution costs	31,717	27,864	26,488
Administrative costs	13,417	12,663	12,873
Total operating costs	**307,347**	**296,587**	**294,476**

The following table provides details of the same operating costs broken down according to their nature for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Year ended 31 December		
	2019	**2018**	**2017**
Purchase and consumption of raw materials and finished goods	154,204	154,626	154,603
Personnel costs	52,830	49,235	49,997
Packaging	23,728	25,742	23,500
Transport	19,420	20,154	19,351
Utilities	14,484	13,682	13,952
Amortisation, depreciation and write-downs	12,385	13,561	9,392
Sales commissions	4,923	4,903	5,194
Porterage and logistics	4,779	4,349	4,198
Surveillance and cleaning	4,362	3,463	3,491
Maintenance and repair	3,557	3,314	4,065
Royalties payable	1,694	1,713	1,719
Cost for use of third-party assets	2,276	1,406	5,400
Advertising and promotions	1,630	1,110	311
Consultancy and professional services	1,034	886	888
Insurance	833	813	849
Laboratory analysis and testing	962	741	704
Production plant services	388	414	524
Directors' fees	36	114	113
External auditor's fees	248	105	105
Statutory auditors' fees	90	33	33
Release of provision for Ozzano Taro risks	-	(7,795)	(8,928)
Other minor operating costs	3,484	4,018	5,015
Total operating costs	**307,347**	**296,587**	**294,476**

Operating costs increased by €10,760 thousand, from €294,587 thousand in the year ended 31 December 2018 to €307,347 thousand in the year ended 31 December 2019, mainly as a result of the acquisition of Delverde Industrie Alimentari S.p.A.

Operating costs increased by €2,111 thousand, from €294,476 thousand in the year ended 31 December 2017 to €296,587 thousand in the year ended 31 December 2018. During the year ended 31 December 2018, the considerable reduction in the cost for use of third-party assets and the simultaneous increase in depreciation and amortisation was due to adopting IFRS 16 as of 1 January 2018.

9.3 Net write-downs of financial assets

The item "Net write-downs of financial assets", totalling €674 thousand, €937 thousand and €928 thousand respectively for the years ended 31 December 2019, 2018 and 2017, refers to the write-down of trade receivables. A breakdown of changes to the provision for bad debts for the years ended 31 December 2019, 2018 and 2017 can be found in Note 8.9 above, "Trade receivables".

9.4 Other revenues and income

The following table provides a breakdown of "Other revenues and income" for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Year ended 31 December**		
	2019	**2018**	**2017**
Repayments and compensation	2,028	1,600	2,138
Other revenues from the Ozzano plant	97	454	313
Tax credit for research and development activities	200	295	485
Leases receivable	203	242	263
Advertising revenues and promotional contributions	282	162	295
Capital gains from disposals	84	74	33
Other	2,247	1,750	1,389
Total other revenue and income	**5,141**	**4,577**	**4,916**

9.5 Other operating costs

The following table provides a breakdown of "Other operating costs" for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	**Year ended 31 December**		
	2019	**2018**	**2017**
Stamps, duties and local taxes	783	1,047	1,245
Corporate canteen	237	221	198
Repayments and compensation	367	139	77
Benefits and membership fees	48	131	71
Losses	(124)	3	11
Other	2,153	1,612	1,797
Total other operating costs	**3,464**	**3,153**	**3,399**

9.6 Financial income and expenses

The following table provides a breakdown of "Financial income" for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Year ended 31 December		
	2019	**2018**	**2017**
Interest from cash pooling	553	1,232	874
Net foreign exchange gains		81	-
Other financial income	29	14	12
Total financial income	**582**	**1,327**	**886**

Interest from cash pooling refers to the Group's cash pooling arrangements with its parent company Newlat Group. More information can be found in Note 8.13 above, "Financial liabilities".

The following table provides a breakdown of "Financial expenses" for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Year ended 31 December		
	2019	**2018**	**2017**
Interest on loans	926	811	1,060
Interest on lease liabilities	424	492	-
Interest expense and charges to Newlat Group	135	470	834
Fees and commissions	261	146	158
Net foreign exchange losses	16	-	124
Net interest expense on provisions for employee benefits	168	145	105
Other expenses	16	13	122
Total financial expenses	**1,946**	**2,077**	**2,403**

Interest on loans includes interest on loans from banks and interest accrued on financial payables for advances on invoices.

9.7 Income taxes

The following table provides a breakdown of "Income taxes" for the years ending 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Year ended 31 December		
	2019	**2018**	**2017**
Current taxes	1,273	1,717	1,622
Prior-year taxes	-	(140)	(35)
Gain on taxes recognised in equity	1,416		
Total current taxes	2,689	**1,577**	**1,587**
Decrease (increase) in prepaid taxes	197	1,622	1,377
Increase (decrease) in deferred taxes	(2)	(171)	224
Total deferred taxes	195	**1,451**	**1,601**
Total income taxes	**2,884**	**3,028**	**3,188**

The following table displays a reconciliation of the theoretical tax rate with the effective impact on the pre-tax result for the years ended 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Year ended 31 December		
	2019	2018	2017
Profit (loss) before taxes	**13,196**	**8,980**	**7,680**
Theoretical rate	27.9%	27.9%	27.9%
Theoretical tax charge	**3,682**	**2,505**	**2,143**
Adjustments			
Difference between theoretical and local rates	42	112	102
Prior-year taxes		(140)	(35)
Impact of tax rate changes on deferred taxes		-	648
Net non-deductible costs		52	27
Other	(840)	499	303
Income taxes	**2,884**	**3,028**	**3,188**

9.8 Net profit/(loss) per share

The table below shows the net profit/loss per share, calculated as the ratio of net income to the weighted average number of ordinary shares in circulation during the period:

	For the year ended 31 December		
	2019	2018	2017
Profit for the year attributable to the Group in Euro thousands	10,311	5,952	4,492
Weighted average number of shares in circulation	9,206,707	27,000,000	27,000,000
Earnings per share (in Euro)	**0.35**	**0.22**	**0.17**

The diluted earnings per share is the same as the basic earnings per share because there are no financial instruments with potential dilutive effects.

The earnings per share for 2018 and 2017 were made comparable with the 2019 data.

10 TRANSACTIONS WITH RELATED PARTIES

The Group's transactions with related parties, identified based on criteria defined by IAS 24 – "Related Party Disclosures", are of a commercial or financial nature and are carried out under normal market conditions.

Despite this, there is no guarantee that, if these transactions had been conducted between or with third parties, said third parties would have negotiated and entered into the relevant contracts, or executed the transactions themselves, under the same conditions and in the same manner.

The Group deals with the following related parties:

- Newlat Group, a direct or indirect parent company; and
- companies controlled by the direct parent or indirect parent companies other than its own subsidiaries and associates ("**Companies controlled by the parent companies**").

On 31 December 2019, Corticella Molini e Pastifici S.p.A. was merged by incorporation into New Property S.p.A.

The following table provides a detailed breakdown of the statement of financial position items relating to the Group's transactions with related parties at 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Parent company	Companies controlled by the parent companies					
	Newlat Group	**Corticella**	**New Property**	**Other companies controlled by the parent companies**	**Total**	**Total statement of financial position items**	**% of statement of financial position item**
Right-of-use assets							
At 31 December 2019	-	1,641	7,826	-	9,467	17,326	54.6%
At 31 December 2018	-	2,110	10,117	-	12,227	18,577	65.8%
At 31 December 2017	-	-	-	-	-	-	0.0%
Non-current financial assets at amortised cost							
At 31 December 2019	-	125	610	-	735	866	84.9%
At 31 December 2018	-	125	610	-	735	858	85.7%
At 31 December 2017	-	125	610	-	735	975	75.4%
Trade receivables							
At 31 December 2019	-	-	-	19	19	49,274	0.0%
At 31 December 2018	-	-	-	19	19	53,869	0.0%
At 31 December 2017	-	-	-	19	19	54,430	0.0%
Other receivables and current assets							
At 31 December 2019	-	-	-	-	-	4,701	0.0%
At 31 December 2018	-	-	10,000	-	10,000	14,440	69.3%
At 31 December 2017	-	-	18,192	-	18,192	22,328	81.5%
Cash and cash equivalents	-	-	-	-	-		
At 31 December 2019	45,338	-	-	-	45,338	100,884	44.9%
At 31 December 2018	61,429	-	-	-	61,429	61,789	99.4%
At 31 December 2017	71,621	-	-	-	71,621	72,060	99.4%
Non-current financial liabilities							
At 31 December 2019	-	-	-	-	-	12,000	0.0%
At 31 December 2018	-	-	-	-	-	1,691	0.0%
At 31 December 2017	9,000	-	-	-	9,000	13,478	66.8%
Non-current lease liabilities							
At 31 December 2019	-	1,222	5,767	-	6,989	13,032	53.6%
At 31 December 2018	-	1,682	8,018	-	9,700	14,110	68.7%
At 31 December 2017	-	-	-	-	-	-	0.0%
Trade payables							
At 31 December 2019	48	-	57	44	149	85,592	0.2%
At 31 December 2018	130	-	58	7	195	92,221	0.2%
At 31 December 2017	678	-	-	50	728	91,160	0.8%
Current lease liabilities							
At 31 December 2019	-	460	1,881	-	2,341	4,776	49.0%
At 31 December 2018	-	454	2,222	-	2,676	5,087	52.6%
At 31 December 2017	-	-	-	-	-	-	0.0%

The following table provides a breakdown of the income statement items relating to the Group's transactions with related parties for the years ended 31 December 2019, 2018 and 2017:

(in thousands of Euro)	Parent company	Companies controlled by the parent companies					
	Newlat Group	Corticella	New Property	Other companies controlled by the parent companies	Total	Total statement of financial position items	% of statement of financial position item
Cost of sales							
Year ended 31 December 2019	-	500	2,743	114	3,357	262,212	1.3%
Year ended 31 December 2018	-	469	2,291	114	2,874	256,060	1.1%
Year ended 31 December 2017	-		1,423	223	1,646	255,115	0.6%
Administrative costs							
Year ended 31 December 2019	417	-	-	-	417	13,417	3.1%
Year ended 31 December 2018	990	-	-	-	990	12,663	7.8%
Year ended 31 December 2017	990	-	-	-	990	12,873	7.7%
Financial income							
Year ended 31 December 2019	408	-	-	-	408	582	70.1%
Year ended 31 December 2018	1,232	-	-	-	1,232	1,327	92.8%
Year ended 31 December 2017	842	-	-	-	842	886	95.0%
Financial expenses							
Year ended 31 December 2019	135	46	223	-	404	1,946	20.8%
Year ended 31 December 2018	470	57	272	-	799	2,077	38.5%
Year ended 31 December 2017	834		-	-	834	2,403	34.7%

Transactions with parent company Newlat Group

Of the cash and cash equivalents, €45,338 thousand, €61,429 thousand and €71,621 thousand respectively, at 31 December 2019, 2018 and 2017, refer to the cash pooling arrangements between Group companies and the parent company, Newlat Group.

Of the non-current financial liabilities at 31 December 2017, €9,000 thousand referred to the loan agreement with the parent company taken on by Newlat following the Corticella Business Unit Purchase (later incorporated into New Property S.p.A.). On 15 May 2017, the parent company awarded a €25,000 thousand loan to Newlat, which was then disbursed on 31 May 2017. This loan was transferred to beneficiary New Property following the New Property Spin-off on 1 June 2017.

Administrative expenses for the year ended 31 December 2019 are attributable to: (i) operating expenses incurred by Newlat and Newlat Deutschland in relation to service contracts (€231 thousand); and (ii) fees incurred in relation to the cash pooling agreements signed by Newlat and Newlat Deutschland (€186 thousand).

Administrative expenses for the year ending 31 December 2018 and 2017 are attributable to: (i) operating expenses incurred by Newlat, Centrale del Latte di Salerno and Newlat Deutschland in relation to service contracts (€480 thousand); and (ii) fees incurred in relation to the cash pooling agreements signed by Newlat, Centrale del Latte di Salerno and Newlat Deutschland (€510 thousand).

Transactions with companies controlled by the parent companies

The following are the companies controlled by the parent companies with which the Group has conducted transactions during the periods under review:

- Corticella (later incorporated into New Property S.p.A. in December 2019), the company from which the Corticella Business Unit was spun off to Newlat on 23 May 2017, thereby terminating the existing business unit leasing arrangement;
- New Property, the company to which on 23 May 2017 Newlat transferred some assets by way of the New Property Spin-off;
- other companies controlled by the parent companies, such as Newservice S.r.l., Latterie riunite Piana del Sele S.r.l. and Piana del Sele S.r.l.

Corticella (later merged by incorporation into New Property S.p.A.)

At 31 December 2019 and 2018, €1,641 thousand and €2,110 thousand respectively of right-of-use assets, €460 thousand and €454 thousand respectively of current lease liabilities and €1,222 thousand and €1,682 thousand of non-current lease liabilities relate to real estate owned by Corticella and leased to Newlat through an agreement signed on 1 July 2017. The recognition of this contract according to IFRS 16 led to the recognition of depreciation for the years ended 31 December 2019 and 2018, recorded in the cost of sales, of €500 thousand and €469 thousand respectively, and financial charges of €46 thousand and €57 thousand respectively. Non-current financial assets at amortised cost at 31 December 2018 and 2017 refer to security deposits paid to Corticella in relation to this contract.

New Property

At 31 December 2019 and 2018, €7,826 thousand and €10,117 thousand respectively of right-of-use assets, €1,881 thousand and €2,222 thousand respectively of current lease liabilities and €5,767 thousand and €8,018 thousand of non-current lease liabilities relate to real estate assets involved in the New Property Spin-off and leased to Newlat following this extraordinary transaction. The recognition of these contracts according to IFRS 16 led to the recognition of depreciation, recorded in the cost of sales at 31 December 2019 and 2018, of €2,743 thousand and €2,291 thousand respectively, and financial charges of €223 thousand and €272 thousand respectively for the years ended 31 December 2019 and 2018. In the year ended 31 December 2017, in accordance with IAS

17, €1,423 thousand of rental fees were recognised in the cost of sales. Non-current financial assets at amortised cost at 31 December 2018 and 2017 refer to security deposits paid to New Property in relation to these contracts.
Of the other receivables and current assets at 31 December 2018 and 2017, €10,000 thousand and €18,192 thousand respectively referred to the adjustment deriving from the differences between the book values of the assets and liabilities involved in the New Property Spin-off between 31 December 2016 and the effective date of the spin-off, namely 1 June 2017.

11 COMMITMENTS AND GUARANTEES

The table below shows commitments for lease payments in relation to operating *leases* for the year ended 31 December 2017, in accordance with IAS 17. At 31 December 2018 and 2019, the amount of these commitments, subject to discounting, is reflected in *the lease* liabilities pursuant to IFRS 16.

(in thousands of Euro)	**At 31 December**
	2017
Commitments for operating *leases*	
- less than 1 year	1,931
- between 1 and 5 years	18,075
- over 5 years	4,881
Total commitments for operating *leases*	**24,887**

The guarantees given to the Group by Newlat Group amounted to €47,900 thousand for the years ended 31 December 2019, 2018 and 2017 and refer, in the amount of €32,400 thousand, to *a surety* provided in relation to payables to banks for available lines of credit (see Note 8.17 above). The remaining amount, totalling €15,500 thousand at 31 December 2019, 2018 and 2017, refers to letters *of sponsorship* in favour of Newlat Deutschland in relation to outstanding arrangements with UniCredit.

12 OTHER INFORMATION

12.1 Remuneration to directors, statutory auditors and managers with strategic responsibilities

The fees payable to directors and statutory auditors amounted to €132 thousand, €147 thousand and €146 thousand respectively for the years ended 31 December 2019, 2018 and 2017.

The total fees payable to managers with strategic responsibilities amounted to €3,277 thousand, €1,546 thousand and €1,533 thousand respectively for the years ended 31 December 2019, 2018 and 2017.

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

12.2 External Auditor's fees

For the years ended 31 December 2019, 2018 and 2017, the fees payable to the external auditor totalled €206 thousand, €105 thousand and €105 thousand respectively.

12.3 Research and development activities

The Issuer's R&D activity is focused on the ability to develop innovative products, occasionally evocative of local tradition, adhering to the markets and in line with the country's economic situation.

Research and development costs incurred during the three-year period under review have been instrumental in pursuing the Issuer's production and commercial strategies, aimed at making product ranges more innovative and strengthening its position in the market.

R&D expenses totalled €830 thousand for the year ended 31 December 2019, €784 thousand for the year ended 31 December 2018 and €943 thousand for the year ended 31 December 2017, equal to 0.3% of the Group's revenue from contracts with customers in each of the years under review.

The Issuer intends to avail itself of the R&D tax credit provided for in article 1, paragraph 35, of Law no. 190 of 23 December 2014, calculated on the expenses incurred in each period over and above the average for such investments made during the three previous tax periods, and to use it as set out in the aforementioned law.

12.4 Subsequent events

In January 2020, following the spread of the virus called SARS-CoV-2 and its respiratory disease called COVID-19 (commonly known as the 'Coronavirus'), the Chinese and other foreign governments took some restrictive measures to contain the spread of the epidemic. Among these, the most significant have involved the isolation of the region where the epidemic originated, restrictions and controls on travel to, from and within China, restrictions on the movement of the local population and the closure of offices and production facilities throughout the country.

Between the last week of February 2020 and the date of preparation of these financial statements, the aforementioned virus spread rapidly in Italy and in various other countries, with significant negative effects for the health of many people, for commercial activities and for the economies of the countries involved.

At the date of preparation of these financial statements, it is not possible to predict when the spread of the epidemic will be halted and whether the national governments, in Italy and in the other countries where the Company and the Newlat Group operate, will adopt any further restrictive measures affecting production and commercial activities and the movement of people.

Due to the above, the Group - at the date of preparation of these financial statements - cannot fully predict the extent to which the aforementioned events may have significant repercussions on the prospects of the Newlat Group in 2020. Finally, with reference to the accounting principles and estimates used to prepare the Combined Consolidated Financial Statements at 31 December 2019, and based on the information available at the date of preparation of the financial statements, the directors believe they reasonably exclude material impacts attributable to COVID-19.

After careful monitoring of events, the Company's management has promptly implemented strategic decisions and appropriate actions in this situation and highlights the following important characteristics of its business structure, supported by excellent data on sales revenues achieved in the first three months of 2020:

- **full production capacity**: all the establishments of the Group continue their activities, in full compliance with the health standards prescribed by the authorities;

- **sourcing and logistics:** in view of the primarily local (linked to geographical sales areas) structure for sourcing raw materials, and also considering current availability, we do not believe that the current COVID-19 emergency can have material impacts on the Group's supply chain. Similarly, there are no problems in the logistics services used;

- **distribution channels**: Newlat Food generates approximately 73% of its turnover (63% from its own brands and 10% from private labels) through the mass distribution channel, 12% through the B2B channel (baby food) via long-term contracts with multinationals, and 11% through small shops, located mainly in the centre and south of Italy. Revenues from sales related to the HoReCa segment, which were particularly impacted from March 2020 by the large decrease in footfall, both from tourists and locals, are around only 3% of the total revenues of the Group in the year ended 31 December 2019.

- ***Current trading 2020***: in the first two months of the year, generally characterised by a lower contribution to total annual turnover, Newlat Food saw its organic turnover grow by 2% in Italy and 3% in Germany as at 29 February 2020. In the first two weeks of March 2020, there was an average year-on-year increase of 35% in total turnover across all production divisions, compared to the same period in 2019.

On account of these positive foundations, although there remains considerable uncertainty about what path the Coronavirus will take, Newlat Food’s management remains fully confident in the continuation of its organic growth plans.

Extraordinary transaction

On 30 March 2020, Newlat Group S.A. entered into a purchase and sale agreement (the "Contract"), as the buyer, with Finanziaria Centrale del Latte di Torino S.p.A., Lavia Società Semplice, Luigi Luzzati, Marco Fausto Luzzati, Carla Luzzati and Sylvia Loew, as the sellers (the "Sellers"), pursuant to which Newlat Group acquired 6,473,122 ordinary shares of the listed company Centrale del Latte d'Italia S.p.A. ("CLI"), representing 46.24% of the share capital and voting rights (the "CLI Shares subject to Purchase and Sale") against the payment, for each three CLI Shares subject to Purchase and Sale, of a total consideration of €3.00 and 1 ordinary share of Newlat Food held by Newlat Group, corresponding to a unit consideration for each CLI Share subject to Purchase and Sale amounting to €1.00 and 0.33 ordinary shares of Newlat Food (the "Consideration"). The Contract was executed on 1 April 2020 (the "Execution Date"). On the Execution Date, Newlat Group, as the seller, entered into a purchase and sale agreement with the Company, as the buyer, which was executed on the same date and under which Newlat Food purchased the CLI Shares subject to Purchase and Sale, plus another 187,120 ordinary CLI shares, representing 1.34% of CLI's share capital, previously held by Newlat Group for a total of 6,660,242 ordinary CLI shares, representing 47.58% of the share capital (the "CLI Major Interest"), at the same financial terms as the Contract and, therefore, involving Newlat Food's payment of the Consideration. On the Execution Date, as a result of the purchase of the CLI Major Interest, Newlat Food announced the triggering of the obligation to launch a public purchase and exchange offer (the "OPAS") for the remaining CLI ordinary shares , pursuant to and in compliance with applicable laws and regulations, at the same Consideration paid to Newlat Group.

CLI is a company active in the production and marketing of about 120 products ranging from milk and its derivatives to yoghurt and plant-based beverages that are distributed under the trademarks Tappo Rosso, Mukki, Tigullio and Vicenza in the reference territories at over 16,000 points of sale, both mass-market retailers and traditional traders. Its shares are listed on the STAR segment of the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. The operation aims to consolidate the Italian dairy market by merging two of its main operators, namely Newlat Food and CLI, which complement each other well in terms of geographical positioning and offer considerable potential for synergies. The business plan envisages that CLI will become the post-transaction reference platform for the entire dairy world, leveraging, among other things, the high-quality regional production chains of Tuscany and Piedmont and the managerial continuity represented by all managers and partners who will be involved in the major growth project under the leadership of Angelo Mastrolia, Executive Chairman of Newlat Food, and Edoardo Pozzoli, former CEO and current director of CLI. The acquisition of the majority stake in CLI falls perfectly within the plans and timings envisaged by the external growth and capital utilisation strategies announced during the IPO phase, thus allowing the Newlat Group to reach an annual threshold of €500 million for revenue from contracts with customers. Thanks to the business combination of Newlat Food and CLI, since 1 April 2020 the Group has been the third-largest Italian operator in the Milk & Dairy sector and has boasted a full and competitive production capacity. In addition, a number of synergies of various kinds have been identified which, once implemented, will lead to substantial efficiencies in the short term. One of the fundamental points of the combination is the complementarity of brands and territories served, as well as their respective high-quality production chains (Tuscany, for example, is the jewel in the crown for organic products), thus offering Italian consumers a range of unique products with historic and locally significant brands.

25 May 2020

For the Newlat Food S.p.A. Board of Directors

Angelo Mastrolia
(Chairman)

Independent auditor's report

To the Board of Directors of Newlat Food SpA

Opinion

We have audited the accompanying combined consolidated financial statements of Newlat Food SpA (hereinafter also the "Company") and its subsidiaries and Newlat GmbH (hereinafter, jointly, the "Newlat Group" or the "Group"), which comprise the consolidated statement of financial position as of 31 December 2019, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flows statement for the year ended 31 December 2019 and related notes (hereinafter, the "Combined Consolidated Financial Statements 2019").

In our opinion, the Combined Consolidated Financial Statements 2019 give a true and fair view of the financial position of Newlat Group as of 31 December 2019 and of the result of its operations and cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and with paragraph 2 of the notes titled "Summary of the accounting policies and criteria adopted for the preparation of the Combined Consolidated Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italy). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the Combined Consolidated Financial Statements" section of this report. We are independent of the Company and the Group in accordance with the independence and other ethical requirements of the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants, applicable to the audit of the Combined Consolidated Financial Statements 2019. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The Combined Consolidated Financial Statements are fundamentally the aggregate of the consolidated financial statements of Newlat Food SpA and the accounting figures prepared in accordance with IFRS of Newlat GmbH, a German entity that was under common control with the Company prior to 29 October 2019 and was acquired by Newlat Food SpA on that date. The Combined Consolidated Financial Statements have been prepared for inclusion in the Registration Document drawn up by the Company for the purpose of the mandatory public tender and exchange offer ("OPAS") for all of the ordinary shares in the listed company Centrale del Latte d'Italia SpA (hereinafter also "CLI"), less the ordinary shares in CLI already held by the Company.

The Newlat Group, in the consolidation perimeter reported in the Combined Consolidated Financial Statements 2019, did not operate as a separate entity throughout the year ended 31 December 2019; the Combined Consolidated Financial Statements, therefore, do not necessarily reflect the results that would have been obtained if the Newlat Group had operated as a separate entity throughout the year ended 31 December 2019.

For the figures relating to the Combined Consolidated Financial Statements of Newlat Group for the years ended 31 December 2018 and 31 December 2017, reference is made to our audit report dated 22 July 2019, which includes an unmodified opinion thereon.

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

The Directors of Newlat Food SpA are responsible for the preparation of Combined Consolidated Financial Statements 2019 that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with paragraph 2 of the notes titled "Summary of the accounting policies and criteria adopted for the preparation of the Combined Consolidated Financial Statements" and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of Combined Consolidated Financial Statements 2019 that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Newlat Group's ability to continue as a going concern and, in preparing the Combined Consolidated Financial Statements 2019, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the Combined Consolidated Financial Statements 2019, the Directors use the going concern basis of accounting, unless they either intend to liquidate the parent company Newlat Food SpA or to cease operations or have no realistic alternative but to do so.

The Board of Statutory Auditors *("Collegio Sindacale")* of Newlat Food SpA is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's responsibilities for the audit of the Combined Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Combined Consolidated Financial Statements 2019 as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italy) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Combined Consolidated Financial Statements 2019. As part of our audit conducted in accordance with International Standards on Auditing (ISA Italy), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the Combined Consolidated Financial Statements 2019, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we concluded on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the Combined Consolidated Financial Statements 2019, including disclosures, and whether the Combined Consolidated Financial Statements 2019 represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Combined Consolidated Financial Statements 2019. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the Combined Consolidated Financial Statements.

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

Bologna, 3 June 2020

PricewaterhouseCoopers SpA

signed by

Gianni Bendandi
(Partner)

"This report has been translated into the English language from the original, which was issued in Italian language, solely for the convenience of international readers. Reference in this report to the financial statements refer to the financial statements in original Italian and not to any their translation."